CLIENT ALERTS & INSIGHTS

The Defend Trade Secrets Act of 2016

JUNE 24, 2016

Authors: H. Alan Rothenbuecher, Michael D. Stovsky

The Defend Trade Secrets Act of 2016 ("DTSA") was signed into law May 11, 2016. The DTSA is an amendment to chapter 90 of title 18 of the United States Code, commonly known as the Economic Espionage Act of 1996 ("EEA"), which criminalized the misappropriation of trade secrets. The EEA was amended to provide federal civil jurisdiction for the theft of trade secrets, and for other purposes. Prior to the signing of the DTSA, the only civil cause of action for the misappropriation of trade secrets was through the state court system. The DTSA does not preempt any state law and only adds to existing law.

Highlights

- An 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 interstate or foreign commerce.[1]
- The court may, upon ex parte application, issue an order seizing property necessary to prevent propagation or dissemination of a trade secret.[2]
- Remedies for the misappropriation of a trade secret include;
  - injunctions to prevent actual or threatened misappropriation,
  - damages for loss,
  - damages for unjust enrichment,
  - royalties for unauthorized use of the trade secret,
  - exemplary damages, not more than 2 times, if the trade secret was willfully and maliciously misappropriated, and
  - attorney's fees if either a claim is made or opposed in bad faith or the trade secret was willfully and maliciously misappropriated.[3]
- The statute of limitations to bring a claim is 3 years after the discovery of the misappropriation or after when the misappropriation would be discovered with reasonable diligence.[4]
- The DTSA provides whistleblower protection for trade secret disclosures made to the government or an attorney.[5]

- Employers must provide notice of the whistleblower protection or the employer may not be awarded exemplary damages or attorney fees in an action against an employee that did not receive the notice.[6]
    - This notice requirement also applies to all contractors and consultants.[7]

Ex Parte Seizures

The most controversial element of the DTSA is that it allows for the seizure of property prior to notice of any legal action. This provision provides that the court may "upon ex parte application but only in *extraordinary circumstances*, issue an order providing for the seizure of property necessary to prevent the propagation or dissemination of the trade secret."[8] This extreme measure sets forth a high standard for the plaintiff to meet. The requirements are similar to that of a obtaining temporary restraining order ("TRO"), but a TRO must be inadequate to avoid immediate and irreparable injury. [9]

Injunctions

While the DTSA provides for injunctions, they may be granted only to protect against actual or threatened misappropriation, not merely on the possession of information.[10] Also, the injunction may not either prevent a person from entering into an employment relationship or conflict with any applicable state law prohibiting restraints on the practice of a lawful profession.[11]

Notice Requirement of Whistleblower Immunity

The DTSA provides protection against criminal and civil liability under federal and state laws for an individual that discloses a trade secret in confidence to a government official or attorney solely for the purpose of reporting a suspected violation of law.[12] Individuals are also given immunity if they disclose the trade secret in a lawsuit or proceeding, if made under seal.[13]

Employers are *required* to give notice of the whistleblower immunity provided in the DTSA in any contract or agreement with an employee (which includes any individual performing work as a contractor or consultant for an employer) that governs the use of a trade secret.[14] Therefore, notice must appear in all types of agreements entered into or updated, including; employment, non-disclosure, and proprietary information assignment agreements. To satisfy this notice requirement, an employer may provide a cross-reference to a policy document provided to the employee that sets forth the reporting policy.[15] If an employer does not meet the notice requirement, they *may not be awarded exemplary damages or attorney fees* in an action against an employee to whom notice was not provided.[16]

Language Complying with the Notice Requirement

The following language should appear in all agreements that govern the use of a trade secret or other confidential information for an employer to be eligible for all of the remedies available under the DTSA.

An individual shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that is made in confidence to a federal, state, or local government official or to an

attorney solely for the purpose of reporting or investigating a suspected violation of law. An individual shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. An individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual files any document containing the trade secret under seal; and does not disclose the trade secret, except pursuant to court order.

Employers should consult with counsel about any concern with these new requirements.

---

[1] 18 U.S.C.S. § 1836(b)(1) (LexisNexis, Lexis Advance through PL 114-165, approved 6/3/16) (emphasis added)

[2] *Id.* at § 1836(b)(2) (emphasis added)

[3] *Id.* at § 1836(b)(3)

[4] *Id.* at § 1836(d)

[5] *Id.* at § 1833(b)(1)

[6] *Id.* at § 1833(b)(3) (emphasis added)

[7] *Id.* at § 1833(b)(4)

[8] *Id.* at § 1836(b)(2)(A)(i) (emphasis added)

[9] *Id.* at § 1836(b)(2)(A)(ii)

[10] *Id.* at § 1836(b)(3)(A)

[11] *Id.*

[12] *Id.* at § 1833(b)(1)(A)

[13] *Id.* at § 1833(b)(1)(B)

[14] *Id.* at § 1833(b)(3)(A)

[15] *Id.* at § 1833(b)(3)(B)

[16] *Id.* at § 1833(b)(3)(C) (emphasis added)