ANNOUNCEMENTS

Protecting Trade Secrets: A New Arrow in the Quiver

MAY 11, 2016

A new weapon in the effort to protect trade secret information came into existence today as President Obama signed the Defend Trade Secrets Act of 2016 ("DTSA"). DTSA creates a new federal cause of action for trade secret misappropriation and, thus, will allow most trade secret disputes to be litigated in federal courts. It also provides some enhanced remedies as compared to most state laws, but it also contains some limits on other remedies not typically present under state laws.

DTSA provides for federal court jurisdiction over lawsuits involving trade secrets which are "related to a product or service used in, or intended for use in, interstate or foreign commerce." 18 U.S.C. §1836(b)(1). In light of today's electronic commerce, it will be the rare exception where a claimed trade secret is not used or intended to be used in interstate commerce. As a result, the federal courts will likely become the venue of choice for trade secret litigation.

The definitions of "trade secrets" and "misappropriation" under DTSA are essentially the same as under the Uniform Trade Secrets Act, which is the governing trade secret law in forty-eight (48) states. One of the most noteworthy elements of the new federal law is its creation of a "seizure" remedy. Specifically, DTSA provides for an ex parte (without notice to the opposing party) order requiring federal law enforcement officials to seize property when necessary to prevent the propagation or dissemination of trade secrets. 18 U.S.C. §1836(b)(2). Seized material remains in the custody of the court throughout the litigation, not the party asserting misappropriation. Not surprisingly, a party seeking the seizure remedy has a high burden to meet as DTSA authorizes seizures only in "extraordinary circumstances."

Significantly, DTSA seems to preclude development of a federal version of the "inevitable disclosure" doctrine. A number of states have embraced this doctrine which, generally speaking, allows a court to prohibit by injunction an employee having extensive trade secret information from becoming employed by a competitor in the same or similar position the employee occupied with the former employer, if the position is such that the employee would inevitably be guided by his knowledge of the former employer's trade secrets. DTSA specifically states that courts may not "prevent a person from entering into an employment relationship." 18 U.S.C. §1836(b)(3)(A)(i)(I). The statute does, however, allow the court to place conditions on such employment if "based on evidence of threatened misappropriation and not merely on the information the person knows." Id. Accordingly, certain restrictions on activity in the course of subsequent employment may be imposed by an injunction if supported by evidence of a threat of misappropriation. Examples would include prohibiting an individual from calling on certain customers or working on a particular product. It is also important to note DTSA does not preempt state trade secret laws. Thus, the inevitable disclosure doctrine under a particular state law is unaffected by DTSA, as would be any

other state law remedies. This is one of several reasons claims under state trade secret laws will typically be joined with the claims under DTSA.

DTSA also expressly provides that no federal court can enter an order which conflicts with a state law "prohibiting restraints on the practice of a lawful profession, trade or business." 18 U.S.C. §1836(b)(3)(A)(i)(II). Under this aspect of the new statute, no federal court can impose an injunction which would be inconsistent with a state law prohibiting certain post-employment restraints. As an example, California law prohibits employers from placing virtually any competitive restrictions upon an employee's post-employment activity. DTSA will, therefore, prevent a federal court in California from ordering any trade secret remedy which would limit an employee's work activity in a way which would be contrary to this California law.

Finally, DTSA contains whistleblower protections that will have the effect of altering the language employers use in confidentiality/non-disclosure agreements. Immunity from civil liability and criminal prosecution for the unauthorized disclosure of trade secrets exists under DTSA for an individual making such disclosure to governmental officials or an attorney for the purpose of reporting or investigating a suspected violation of law, in a complaint filed in court under seal, or in connection with a lawsuit asserting retaliation for reporting a suspected violation of law. Any court filings containing the trade secret must be done under seal.

Employers are required to notify employees asked to sign non-disclosure/confidentiality agreements of this immunity. Any employer failing to include this immunity notice in such agreements will forfeit its right to recover punitive damages or attorney fees under DTSA from any employee not provided the notice. For purposes of this notice requirement, the term "employee" also includes contractors and consultants.

In sum, the enactment of federal legislation providing a private civil cause of action is welcome news. The availability of a federal forum should bring more consistency and predictability to trade secret litigation. It will, however, take planning and the modification of existing agreements to take full advantage of this new law. Additionally, the limitations on remedies under DTSA and state trade secret law as well should cause all employers to re-examine their use of non-compete agreements. As a general rule, non-compete agreements are much better protection than the remedies available in trade secret litigation. Please contact any member of Benesch's Labor and Employment Practice Group for more information or to discuss the implications of DTSA in more detail.

For more information on this topic please contact any attorney in the Labor & Employment Practice Group.