

Highlights of the Defend Trade Secrets Act of 2016

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Client Advisory

May 13, 2016 by Jeffrey S. Boxer, John M. Griem, Jr. and Alexander G. Malyshev

On Wednesday, May 11, 2016, President Obama signed the Defend Trade Secrets Act ("DTSA" or the "Act") into law, opening up federal courts to claimants seeking to protect sensitive information from unscrupulous competitors and former employees. The DTSA changes the landscape in three important ways. First, the Act creates original jurisdiction in federal court for claims of misappropriation of trade secrets that relate to a product or service used in interstate commerce (as many do), with the added sting of double damages and attorney's fees for willful or malicious misappropriation. Second, the DTSA provides owners of trade secrets with a mechanism to seize property to prevent propagation or dissemination of the trade secret. Lastly, Congress also granted immunity to whistleblowers who disclose a trade secret to the government in the course of reporting misconduct, while simultaneously imposing a duty on employers to advise employees of these protections.

The New Federal Cause of Action

Section 2 of the Act vests Federal district courts with original jurisdiction to hear claims for misappropriation of trade secrets that relate to a product or service used in interstate commerce.^[1] A claim may be brought within three years of the date the misappropriation was (or should with reasonable diligence have been) discovered, as long as the misappropriation occurred on or after the effective date of the Act.^[2] Previously, federal courts were only open to plaintiffs asserting claims for misappropriation of trade secrets if there was diversity jurisdiction, and courts would apply the trade secret law of the forum state. The DTSA does not preempt state trade secret law, ^[3] and therefore those causes of action remain available. Although the amended definition of what constitutes a protectable trade secret – contained in 18 U.S.C. § 1839(3) – differs somewhat from the definition applied under New York law and in the Uniform Trade Secrets Act ("UTSA"), those differences may not be significant in most cases. In addition to providing a framework for calculating damages – either through a combination of actual losses sustained and the amount by which the wrongdoer was unjustly enriched that is not captured by the actual loss calculation or, where those calculations are impracticable, through the imposition of a reasonable royalty – the DTSA allows for double damages and attorney's fees in the case of willful misappropriation. ^[4]

The Civil Seizure Provisions

The DTSA, in conjunction with the Federal Rules of Civil Procedure, allows the aggrieved owner of misappropriated trade secrets to protect against misappropriation through both preliminary and permanent injunctive relief. The court may grant an injunction to prevent "any actual or threatened misappropriation" on such terms as the court deems reasonable, provided that those terms do not prevent a departing employee from entering into an employment relationship.^[5] Additionally, the DTSA's civil forfeiture provisions also provide the aggrieved party with a potentially potent mechanism to protect its trade secrets. The civil forfeiture provisions allow the court to order the seizure of property necessary to prevent the propagation or dissemination of the trade secret. ^[6] The DTSA sets a high threshold for civil forfeiture, including requiring the owner of the trade secret to show, among other things, that an injunction would be inadequate because the other party would

evade, avoid or otherwise not comply with such an order. While an *ex parte* civil seizure order could potentially stop misappropriation in its tracks, it remains to be seen how useful this provision will be due to its higher burden of proof.

Whistleblower Protections

The DTSA includes several provisions designed to protect a whistleblower from retaliation claims styled as claims seeking to protect trade secrets. First, the Act explicitly provides that an individual “shall not be held criminally or civilly liable under any Federal or Statetrade secret law” for disclosing a trade secret if that disclosure was: (a) to a government official or an attorney solely for the purpose of reporting or investigating a suspected violation of law; or (b) was made in a complaint or other document filed in a lawsuit or other proceeding under seal. [7] Second, a prevailing defendant may recover attorney’s fees if a misappropriation claim is brought against him or her in bad faith. [8] Finally, the statute provides that notice of this immunity should be provided to an employee in any contract that governs the use of a trade secret or other confidential information and that a failure to do so will constitute a waiver of the double damages and attorney’s fees otherwise available to the owner of the trade secret (e.g. the company). [9]

Conclusion

The passage of the DTSA provides an opportunity for owners of trade secrets to review the options available to them to protect their trade secrets from misappropriation by competitors, departing employees or others. These options now include a statutory claim in federal court. Employers should also ensure they are in compliance with the notice requirements in the whistleblower provisions of the DTSA so that they do not forfeit some of the statute’s benefits.

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Endnotes

[1] Sec. 2(b)(1), 2(c).

[2] Sec. 2(d)-(e).

[3] Sec. 2(f).

[4] Sec. 2(b)(3)(B)-(D).

[5] Sec. 2(b)(3)(A)(i).

[6] Sec. 2(b)(2).

[7] Sec. 7(b)(1)-(2).

[8] Sec. 2(b)(3)(D).

[9] Sec. 7(b)(3).

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