



Federal Courts Now Available for Trade Secret Misappropriation Claims

On May 11, 2016, President Obama publicly signed into law the Defend Trade Secrets Act (the “DTSA”), a long anticipated piece of legislation that creates a federal cause of action for trade secret misappropriation claims. Unlike claims of copyright, trademark, and patent infringement, trade secret misappropriation claims could not be brought by plaintiffs in federal court until now.

What Are Trade Secrets?

While the exact definition of a “trade secret” varies from state to state, the following elements must be present for a trade secret to exist: (1) it is financial, business, scientific, technical, economic, or engineering information, (2) that reasonable measures have been taken to keep secret, (3) which derives independent economic value from not being generally known. Examples of trade secrets include patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, and codes.

Unlike some other forms of intellectual property, there is no federal registration for trade secrets and no time limit on how long they can be protected. A trade secret is protected for as long as it remains a secret, which is why it is extremely important for businesses to have anyone with whom it shares information that may be a trade secret to sign a nondisclosure agreement (“NDA”) or otherwise agree to keep any proprietary information they learn confidential. If a trade secret is learned through improper means, such as through the violation of the terms of an NDA or hacking into a competitor’s computer system, it is deemed to have been “misappropriated”.

Protection of Trade Secrets

Most states have adopted some form of the Uniform Trade Secrets Act (“UTSA”), which was written by the Uniform Law Commission in an effort to create a unified framework for trade secret protection across the states. The only states to have not enacted the UTSA are New York and Massachusetts, where trade secrets are protected under common law.

Trade secret misappropriation has been a federal crime for the past twenty years under the Economic Espionage Act of 1996, but up until now there has been no federal civil remedy for misappropriation. The DTSA amends the Economic Espionage Act to adopt the UTSA definition of trade secret in order to harmonize federal and state law, increase criminal penalties for misappropriation, and give trade secret owners the ability to file a civil misappropriation claim in federal court. The DTSA does not preempt state law, so all state laws regarding trade secrets remain in full effect.

The statute of limitations for a claim under the DTSA is three years from the discovery of the misappropriation, and plaintiffs may seek standard remedies for intellectual property theft, including an injunction, compensatory and punitive damages, and attorneys’ fees. While an injunction requiring a defendant to take affirmative action to protect the secrecy of a trade secret may be granted under the DTSA, it may not “prevent a person from entering into an employment relationship”. Notably, the DTSA also allows for plaintiffs to seek ex-parte seizures in “extraordinary circumstances”. This means that, without notice to the defendant, a plaintiff can



seek to have federal marshals seize “property necessary to prevent the propagation or dissemination” of a trade secret that has been misappropriated if there is a danger that the trade secret could be destroyed if the offender had notice of the planned seizure. This remedy should be used cautiously, however, as a party who has suffered damage by way of a wrongful or excessive seizure order can recover damages and attorneys’ fees from the plaintiff.

The DTSA also creates a safe harbor for employees who disclose a trade secret in confidence to an attorney or federal, state, or local governmental official “solely for the purpose of reporting or investigating a suspected violation of law,” or in a lawsuit that is filed under seal. Under these conditions, the safe harbor gives whistleblowers immunity from any criminal or civil liability under both federal and state misappropriation laws. In order to seek punitive damages and attorneys’ fees from employees, contractors, and consultants who misappropriate trade secrets, the plaintiff must have advised them of these whistleblower immunity provisions in any NDA or other agreement with confidentiality provisions the employee, contractor, or consultant signs. This requirement may also be fulfilled by including the notice in any company policy document that is referred to in an agreement with an employee, contractor, or consultant.

What Does the DTSA Mean for my Company?

The DTSA gives businesses powerful new tools to protect valuable trade secrets when they are misappropriated. In order to take full advantage of the benefits of the DTSA, businesses should review and revise their company policies and contract templates that include confidentiality provisions, including NDAs, employment agreements, contractor agreements, consultant agreements, director agreements, and advisor agreements in conjunction with their counsel for compliance with the whistleblower safe harbor notice requirement.