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Trade Secrets Now Federally Protected Intellectual Property

Today, President Obama signed into law the Defend Trade Secrets Act (DTSA), which is one of the most noteworthy expansions of federal intellectual property law since at least the American Invents Act (AIA) in 2011 and perhaps since the Lanham Act of 1946. Trade secrets can be among a company's most important intellectual property assets, and for good reason—trade secret law enables a company to maintain their proprietary and valuable information shielded from the public eye in a manner that often forms the basis of a company's competitive advantage.

The change to the legal regime governing this type of intellectual property's protection should be an addition to any IP lawyer's arsenal. We do not know yet how far reaching the ramifications will be, but notable changes to current law include the creation of a federal cause of action, the ability to seek ex-parte seizures of property, provision that injunctive relief cannot inhibit employee mobility and immunity for whistleblowers.

Creation of a Federal Cause of Action

Currently, a patchwork of state laws govern the trade secret legal regime and what to do in the instance of misappropriation. All states except Massachusetts and New York have enacted the Uniform Trade Secrets Act (UTSA), but differences exist amongst the versions enacted in various states and how a particular state's court systems handles actions brought before them. Moreover, New York and Massachusetts have not enacted the UTSA and rely on different sources of law for trade secret-like claims, including a common law judge-made regime. As such, companies who bring trade secret litigation in different states face a hodge-podge of legal standards, discovery rules, and procedural requirements.

Under the DTSA, however, litigants now will have a uniform national law—one that grants direct access to federal court. Although federal court often is considered preferable to state court on the perceived sophistication and greater resources of the federal bench, litigants should carefully evaluate which court is best suited to achieve their goals. Trade secret plaintiffs whose top priority is to secure an injunction quickly may still be better off in state court, where the average time from filing a case to an injunction order can be faster—especially in temporary restraining order situations.

Importantly, the DTSA does not eliminate or preempt existing state laws. The DTSA was largely modeled after the UTSA, and provides essentially the same remedies as under state law. Thus, it remains to be seen how much state law will continue to impact trade secret law post enactment of the DTSA.

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Ability to Seek Ex-Parte Seizures of Property

Perhaps the most important difference between the DTSA and the UTSA is the early seizure remedy. The DTSA contains an unusual provision that permits trade secret owners to seek, on an *ex parte* basis (i.e. without first informing the defendants), an order seizing property in defendants' possession that allegedly contains stolen trade secrets. This *ex parte* seizure provision is new and novel—nothing like it currently exists in federal or state trade secret law. As a result, its scope and impact is difficult to predict. The statute appears to allow trade secret owners to seize not only company property, but property owned by departing employees individually. The DTSA may further allow an order seizing property that contains both allegedly stolen information and other information such as a former employee's smart phone or thumb drive. Thus, for example, a party could *ex parte* seek to and seize a hard drive belonging to a departing employee that allegedly contains the trade secrets of the former employer. Given the potential reach of the seizure provision, the risk for competitive abuse is acute. In the above example, a trade secret owner may seek an order seizing a competitor's key assets (i.e., the hard drive), potentially shutting the competitor down until the order expires if that hard drive was the server upon which the new business is running. In other words, a judge may order seizure of a hard drive that contains allegedly stolen trade secrets commingled with legitimate data about the competitor's business that is necessary for its ongoing operation—i.e., payroll. It is unclear what specific damages or other remedies are available to the competitor if it cannot function without the unquestionably legitimate information during the seizure. The DTSA contains numerous safeguards designed to avoid abuse, but it remains to be seen how effective they are in practice.

Injunctive Relief Cannot Inhibit Employee Mobility

Most trade secret cases involve former employees leaving to work for—or start—a competing business. One of the major concerns about early versions of the bill was that the DTSA would severely limit employees' mobility. To address this concern, the DTSA provides that any injunctive relief that would "prevent (or place conditions on) a person from entering into an employment relationship" must be "based on evidence of threatened misappropriation and not merely on the information the person knows." In a sense, this Federal law confirms that there is no such thing as the "inevitable disclosure doctrine." The requirement of "threatened misappropriation" does not mean that the employee must have expressly threatened misappropriation, but rather should consist of circumstantial evidence of likely misappropriation.

In addition, any injunction issued under the DTSA must not conflict with an applicable law that "prohibit[s] restraints on the practice of a lawful profession, trade, or business." Because state laws governing restraints on employment vary widely, this may result in different outcomes in different states. In particular, in states that tend to place high value on employee mobility such as California (where non-competition agreements are mostly invalid), a trade secret owner seeking an injunction against a low-level employee may face an argument that state law prohibits or limits the right or scope of an injunction under the DTSA.

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Need to Incorporate Whistle-Blower Immunity Provisions in Contracts

Finally, the DTSA provides immunity for whistleblowers who disclose trade secrets in confidence to the government or attorneys solely for the purpose of reporting or investigating suspected violations of the law. The law requires employers to notify their employees in “any contract or agreement with an employee that governs the use of a trade secret or other confidential information” that it is entered into or modified after the DTSA is enacted, and of their immunity in such circumstances. Employers will need to make sure immediately that their employment contracts (or attendant policies referenced and incorporated into such contracts) contain the proper notifications as required by the DTSA.

Final Thoughts

While the urge by IP practitioners may be rushing to judgment that the DTSA is the panacea for trade secret plaintiffs or holders we instead suggest a metered approach. We first recommend that employers with heavy trade secret portfolios or issues incorporate the necessary language into their employment contracts or global policies. We also recommend relying upon the *ex parte* procedure in cases where a seizure is the best option for stopping an imminent and obvious trade secret dissemination—instances where a device or source code is taken.

In most situations where a trade secrets theft is suspected, though, it is still best to thoughtfully and fully consider where a case is more properly suited—state court or federal court—except now we know with certainty that a trade secret holder has the federal court option available. As the interpretation and implementation of the DTSA evolves, we will all be in a much better place to analyze just how broad sweeping the new law is and how the guaranteed access to federal court has affected the legal landscape.

This document is intended to provide you with general information regarding the Defend Trade Secrets Act. The contents of this document are not intended to provide specific legal advice. If you have any questions about the contents of this document or if you need legal advice as to an issue, please contact the attorneys listed or your regular Brownstein Hyatt Farber Schreck, LLP attorney. This communication may be considered advertising in some jurisdictions.

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