

Intellectual Property and Technology, and Labor and Employment Law Update

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The Defend Trade Secrets Act: A Powerful Tool for Protecting ‘Secret Sauce’ Comes With Affirmative Obligations

On May 11, President Obama signed the Defend Trade Secrets Act (DTSA) into law, which was passed as part of a bipartisan effort in the House and Senate. The new law, which is an amendment to the DTSA first enacted in 2012, creates a federal civil cause of action for trade secret misappropriation that can be filed in federal district courts. In its original iteration, the DTSA merely authorized the Department of Justice to bring criminal cases for misappropriation of trade secrets. The DTSA now provides powerful tools for companies seeking to protect their trade secrets by making available an immediate court order for seizure of misappropriated trade secrets, and the recovery of exemplary damages and attorneys’ fees. Some of these powerful remedies may be lost, however, if an employer does not meet new notice requirements to employees concerning the rights of whistleblowers.

How Trade Secrets Were Protected Previously

Trade secrets exist within every industry in our economy. A trade secret is a formula, practice, process, design, pattern, method or compilation of information, which is not generally known or ascertainable by others, and which allows a business to gain an economic advantage over its competitors. Examples of trade secrets include: Google’s search algorithm; Lena Blackburne’s (baseball) Rubbing Mud; the Coca-Cola recipe; Burger King’s secret sauce; lists of customers, marketing and product development plans, nonpublic pricing formulas and information, confidential customer information and even the criteria for placement on *The New York Times* “Best Sellers” list. Although a form of intellectual property, trade secrets lacked the robust protections afforded to patents, trademarks and copyrights — chiefly, a federal civil cause of action. Instead, companies were left with the unsatisfactory option of either lobbying federal prosecutors to bring criminal charges or pursuing a civil cause of action under state law. The former option was rarely invoked; and the latter option required companies to understand their legal rights on a state-by-state basis and frequently resulted in inconsistent court decisions.

The newly-enacted DTSA seeks to remedy many of these concerns, providing broad and meaningful protections to intellectual property created by American businesses and inventors.

Key Takeaways for Companies

- 1. Companies Can Now Bring Trade Secret Theft Claims in Federal Court**

The DTSA will create a single federal system for litigation of trade secret theft, providing for the development of more predictable, nationwide case law. The DTSA provides that: “An owner of a trade secret that is misappropriated may bring a civil action under this subsection if the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce.” The DTSA defines trade secrets as:

All forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible[.]

To qualify as a trade secret, the company must take reasonable measure to keep such information secret, and the information must derive independent economic value from not being generally known and not being readily ascertainable through proper means. Notably, the DTSA’s definition of trade secret is broader than most state statutory definitions, which limit trade secrets to formulas, patterns, compilations, programs, devices, methods, techniques and processes. Potential remedies afforded by the DTSA include actual damages, restitution, injunctive relief, significant exemplary relief (up to two times the award of actual damages) and attorneys’ fees.

The DTSA does not preempt state law, and therefore, companies are still free to pursue trade secret theft claims under state law. However, access to federal courts is often desirable to companies, as these courts tend to be better-equipped than state courts to handle the complex technological issues inherent in many trade secret cases.

2. Seizure of Misappropriated Property

The DTSA now enables plaintiffs to seek an *ex parte* seizure order, subject to certain limitations. This provision of the DTSA permits an aggrieved company to seek relief from the court against a party to seize misappropriated trade secrets without providing notice to the alleged wrongdoer beforehand. Like an injunction, the plaintiff must establish that immediate and irreparable injury will occur if a seizure order is not issued. The order must include instructions for law enforcement officers performing the seizure, such as timing of the seizure and whether force may be used to access locked areas. The Act also provides that a seizure order should only be issued in “extraordinary circumstances” and that the plaintiff must establish that other remedies (e.g., an injunction) would be inadequate. In an effort to assuage concerns about abuse of the seizure order, the DTSA permits defendants to seek damages for a wrongful seizure.

The seizure order is a powerful tool now available to companies, seeking to recover their trade secrets before the value of the trade secret is lost due to public dissemination. However, companies should exercise caution in seeking a seizure order given the risk of a potential wrongful seizure claim by the defendant, which could result in time-consuming and expensive litigation.

3. Whistleblower Immunity

The DTSA includes provisions designed to protect whistleblowers from criminal or civil liability. The DTSA provides immunity for the disclosure of a trade secret that: (a) is made (i) in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of

law; or (b) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. Additionally, an individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to his or her attorney and use the trade secret information in the court proceeding, if the individual: (a) files any document containing the trade secret under seal; and (b) does not disclose the trade secret, except pursuant to court order.

4. Notification of Immunity to Employees, Independent Contractors and Consultants.

Notably, the DTSA also requires employers to provide its employees, contractors and consultants with written notice of the immunity provisions in any agreement that governs the use of a trade secret or confidential information. This particular provision applies to any such agreement entered into or updated after May 11, 2016.

Because the notice of immunity requirement applies to *any* contract or agreement with an employee, consultant or independent contractor that governs trade secrets, the notice requirement may extend to many types of agreements or policies. Companies should immediately review and update employment agreements, offer letters, nondisclosure agreements, policy manuals, employee handbooks, independent contractor and consulting agreements, and any other documents that may concern the use of trade secrets. The employer may, in lieu of express language describing the immunity, include a cross-reference to a policy document that sets forth the employer's reporting policy for a suspected violation of the law.

A company that fails to provide written notice of the immunity provisions may not recover exemplary damages and attorneys' fees in an action brought against an employee under the DTSA. Accordingly, to prevent the loss of these potent remedies for unlawful misappropriation of trade secrets, employers should comply strictly with the immunity notice requirements discussed above.

For more information, please contact the Intellectual Property and Technology, and Labor and Employment Practice Groups at Lane Powell: lanepowellpc@lanepowell.com

1.800.426.5801

lanepowell.com

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