

President Obama Signs Defend Trade Secrets Act Into Law

May 11, 2016

Trade Secrets

On Wednesday, May 11, 2016, President Barack Obama signed into law the Defend Trade Secrets Act of 2016 (“DTSA”), which creates a federal civil cause of action for trade secret misappropriation. The Senate passed the DTSA on April 4, 2016 by a unanimous vote of 87-0. The Senate bill (S. 1890) was passed by the House of Representatives without amendment on April 27, 2016 by a vote of 410-2. The legislation was introduced in the Senate by Senators Hatch (R-UT) and Coons (D-DE), and companion legislation in the House (H.R. 3326) was introduced by Representatives Doug Collins (R-GA) and Jerrold Nadler (D-NY).

The DTSA amends the Economic Espionage Act of 1996 (“EEA”)—a criminal statute—to create a federal civil claim and remedy for trade secret misappropriation. The law gives trade secret owners, who have long been reliant on a patchwork of state laws, the same access to federal court enjoyed by owners of other forms of intellectual property, including patents, copyrights, and trademarks. Federal court jurisdiction will streamline the discovery and subpoena process in multi-jurisdictional cases and facilitate the immediate, cross-jurisdictional action necessary when a trade secret has been stolen. The DTSA thus modernizes trade secret protection by creating a unified body of law nationwide, without displacing existing state laws.

Definition of “Trade Secret”

The DTSA uses substantially the same definition of “trade secret” already employed by the EEA, which includes proprietary commercial information where:

- the owner has taken reasonable measures to keep such information secret; and
- the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information.

Trade secrets thus include a wide swath of valuable know-how, including manufacturing processes and techniques, unique designs, formulas and codes, customer lists, and other proprietary information that has been the subject of reasonable efforts to be maintained in secret. The “owner” of a trade secret is defined as the person or entity “in whom or in which rightful legal or equitable title to, or license in, the trade secret is reposed.”

Definition of “Misappropriation”

The DTSA defines “misappropriation” consistently with the Uniform Trade Secrets Act (“UTSA”) already adopted by almost every state, which requires:

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- acquisition of a trade secret of another by a person who knows, or has reason to know, that the trade secret was acquired by improper means; or
- disclosure or use of the trade secret of another, without consent, by a person who (1) used improper means to acquire knowledge of the trade secret; (2) had reason to know that the trade secret was acquired by improper means or under circumstances giving rise to a duty of secrecy; or (3) before a material change in position, had reason to know that the trade secret was disclosed by accident or mistake.

The DTSA defines “improper means” to include theft, bribery, misrepresentation, breach or inducement of breach of a duty of secrecy, or espionage through electronic or other means. Improper means *do not* include reverse engineering, independent derivation, or any lawful means of acquiring a trade secret.

Exceptions

In addition to the EEA’s exception of state action, the DTSA provides for immunity from liability when trade secrets are disclosed in the following ways:

- confidential disclosure to a government official or an attorney for the purpose of reporting a suspected violation of the law;
- disclosure in a complaint or other document filed in a lawsuit or other proceeding, when filed under seal; or
- disclosure to the court or an attorney in a lawsuit for retaliation by an employer for reporting a suspected violation of law, provided any documents containing the trade secret are filed under seal.

Remedies

The remedies available under the DTSA mirror existing remedies under the UTSA, and include injunctive relief and damages. Injunctions may be granted to prevent actual or threatened misappropriation, although the law provides that injunctions must comply with applicable state laws prohibiting restraints on trade. A court may not prevent a person from entering into an employment relationship, and any conditions placed on employment must be based on actual evidence of threatened misappropriation. Courts may also require affirmative acts to protect a trade secret.

The law also provides for damages for actual loss caused by misappropriation of the trade secret, unjust enrichment, and enhanced damages for willful and malicious misappropriation. In exceptional circumstances where neither an injunction or damages would provide adequate relief, courts may condition continued use of the trade secret on payment of a reasonable royalty.

The period of limitations for claims under the DTSA is three years, which mirrors the limitations period in most states that have adopted the UTSA, and is consistent with other forms of intellectual property (e.g., copyright law).

Ex Parte Seizures

The DTSA provides, in “extraordinary circumstances,” for expedited relief on an *ex parte* basis in the form of a seizure of property from the party accused of misappropriation. By allowing a

limited seizure of the allegedly stolen trade secret, the Act facilitates the immediate action often necessary to prevent destruction or dissemination of valuable intellectual property.

A seizure order may be issued if the applicant can show, among other things:

- a likelihood of success in showing that the information is a trade secret and the subject misappropriated (or conspired to misappropriate) the trade secret by improper means;
- the subject would not comply with an injunction;
- immediate and irreparable injury will occur if a seizure order is not issued;
- the subject has actual possession of the trade secret and any other property to be seized, and would destroy or make inaccessible those materials if provided notice;
- the potential harm to the applicant outweighs the legitimate interests of the subject and any harm to third parties; and
- the applicant has not publicized the requested seizure.

Any seizure order issued by a court must:

- provide for the narrowest seizure necessary, minimizing interruption to the business operations of third parties and, to the extent possible, the legitimate business operations of the party accused of misappropriating the trade secret;
- provide guidance to law enforcement regarding the hours during which the seizure may be executed, and whether force may be used to access locked areas;
- set a hearing at the earliest possible time within seven days after the order is issued, and permit any affected party to move to modify or dissolve the order at any time;
- protect seized property from disclosure by prohibiting the applicant's access, prohibiting copies, ensuring that any storage media is not connected to a network or the Internet without the parties' consent, and, upon either party's motion, encrypting any seized material; and
- require the applicant to post a security for the payment of damages to an aggrieved party in case of a wrongful or excessive seizure.

Courts may appoint a neutral technical expert to participate in the seizure if they find that it would minimize the burden of the seizure, and may also appoint a special master to locate and isolate trade secret information and to facilitate the return of unrelated property to its owner.

The DTSA includes a cause of action for damages for any party harmed by a wrongful or excessive seizure, and courts must require seizure applicants to post security before the court issues a seizure order.

Notice to Employees

As noted above, the DTSA provides immunity for certain disclosures. It also requires employers to provide notice of that immunity in any agreement with an "employee" that governs the use of a trade secret or confidential information. All such agreements entered into or updated after May 11, 2016 are subject to this requirement, and the DTSA defines "employee" to include any individual performing work as a contractor or consultant. Notice may be included in the agreement itself or by cross-reference to a separate reporting policy. Failure to comply

precludes the employer from obtaining punitive damages or attorney's fees under the DTSA in an action against an employee to whom notice was not provided.

Covington has represented the Protect Trade Secrets Coalition, a cross-industry group of leading American companies working in support of a federal civil remedy for trade secret theft. The Coalition includes innovative businesses in a wide range of industries, including biotech, software, semiconductors, consumer goods, medical devices, automobiles, aerospace, and agriculture. In addition to the members of the Coalition, the legislation is also supported by a number of other corporations and several trade associations and industry groups, including the U.S. Chamber of Commerce; the National Association of Manufacturers; BSA The Software Alliance; the Information Technology Industry Council; the Alliance of Automobile Manufacturers; the Association of Global Automakers; the Internet Commerce Coalition; the New England Council; the Semiconductor Industry Association; the Software and Information Industry Association; and the Telecommunications Industry Association.

If you have any questions concerning the material discussed in this client alert, please contact the following members of our Trade Secrets practice group:

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