IP Alert: Obama Signs Law Allowing Trade Secret Owners to Sue in Federal Court



OBAMA SIGNS LAW ALLOWING TRADE SECRET OWNERS TO SUE IN FEDERAL COURT

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Yesterday, President Obama signed the Defend Trade Secrets Act (DTSA), enacting a federal trade secrets law. Much of the law existed under the federal Economic Espionage Act of 1996 (EEA). However, for the first time, the DTSA provides federal jurisdiction for civil cases involving the misappropriation of trade secrets.

The DTSA attempts to bring more uniformity and predictability to litigation of trade secret misappropriation claims by permitting trade secret holders to bring civil claims directly under the federal statute. Before the DTSA, private civil actions for the misappropriation of trade secrets were generally brought in state courts, with federal litigation of these actions being limited to cases

having diversity and/or supplemental jurisdiction. Although 47 states have adopted the Uniform Trade Secrets Act (UTSA), which codifies the basic principles of common law trade secret protection, many state legislatures altered the original text of the UTSA before enacting it.[1] As a result, state law variations from the UTSA have led to different procedural and substantive standards being applied by state courts in trade secret cases.[2]

DTSA DOES NOT PREEMPT STATE LAW

Nevertheless, the DTSA (which is grounded in the commerce clause of the U.S. Constitution) will not preempt state law, unlike patent and copyright laws, making the DTSA akin to trademark law coexisting with state law. Under the DTSA, an owner of a trade secret may bring a federal civil action for the misappropriation of a "trade secret that is related to a product or service used in, or intended for use in, interstate or foreign commerce."[3] Civil claims for trade secret misappropriation that are only related to intrastate commerce must still be brought in state courts, unless there is diversity or supplemental jurisdiction. Also, claims under DTSA must be brought within three years after the date on which the misappropriation is discovered or should have been discovered by the exercise of reasonable diligence.

MISAPPROPRIATION OF TRADE SECRETS

The DTSA definitions of "trade secret" and "misappropriation" generally mirror those of the UTSA. The DTSA defines "trade secret" as all forms and types of information that (1) the owner thereof has taken reasonable measures to keep such information secret; and (2) 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.[4] The in-depth definition of the term "misappropriation" in the DTSA includes, in part, (1) "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 (2) "disclosure or use of a trade secret of another without express or implied consent by a person who … used improper means to acquire knowledge of the trade secret."[5] The DTSA states that the term "improper" includes "theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means," but excludes "reverse engineering, independent derivation, or any other lawful means of acquisition."[6]

SEIZURE AS A REMEDY

Like most state trade secret law, remedies under DTSA include injunctive relief and monetary relief. However, seizure of property is a new remedy contemplated by the DTSA. A seizure request can be brought on an *ex parte* basis for the seizure of property necessary to prevent the dissemination of the trade secret that is the subject of the action.

However, the requirements for obtaining seizure are quite numerous and stringent under the DTSA. The party moving for the seizure must file an affidavit or verified complaint that satisfies each of the requirements listed under the statute.[7] DTSA expressly states that an order for the seizure of property may be granted only in "extraordinary circumstances." For example, in addition to specific requirements listed in the statute, if it clearly appears from specific facts that an immediate and irreparable injury will occur if such seizure is not ordered, the harm to the applicant of denying the application outweighs the harm to the legitimate interests of the person against whom seizure would be ordered, and the applicant is likely to succeed in showing that the information is a trade secret and the person against whom seizure would be ordered misappropriated or conspired to misappropriate the trade secret of the applicant by improper means.[8]

The DTSA includes several protections for the party against whom seizure is ordered. Namely, the statute requires the narrowest seizure of property necessary, stipulates that the court must schedule an evidentiary hearing within seven days (during which the order may be modified or dissolved), and allows a party against whom the order has been issued to move the court at any time to dissolve or modify the order after giving notice to the party who obtained the order.[9] Also, any seized property remains in the custody of the court.[10]

WHISTLEBLOWER IMMUNITY

A widely discussed and controversial provision of the DTSA, not present in state trade secret law, is whistleblower immunity and the consequential affirmative duties placed on employers. Specifically, the DTSA provides "immunity from liability for confidential disclosure of a trade secret to the government or in a court filing" if a disclosure of a trade secret disclosure is made "in confidence to a Federal, State, or local government official…or to an attorney; and…solely for the purpose of reporting or investigating a suspected violation of law," or is made "in a complaint or other document filed in a lawsuit…if such filing is made under seal."[11] 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 the attorney of the individual and use the trade secret information in the court proceeding.[12] However, the individual must file any document containing the trade secret under seal and otherwise cannot disclose the trade secret, except pursuant to court order.[13]

Also, in order to receive all available remedies under the DTSA, employers have an affirmative obligation to provide notice to employees of the immunity provisions.[14] Failure to comply with this affirmative obligation will preclude the employer from recovering "exemplary damages or attorney fees."[15] The employer may provide the notice in any contract or agreement with an employee that governs the use of a trade secret or other confidential information or by providing a cross-reference to a policy document provided to the employee that sets forth the employer's reporting policy for a suspected violation of law.[16] Also, the definition of "employees" in the DTSA is very broadly defined

in that it includes conventional employees as well as any individual performing work as a contractor or consultant.[17] In view of the notice requirement, employers may be advised to review all employment-related contract or agreement documents that govern the use of a trade secret or other confidential information to ensure that these documents provide notice to employees of their rights under the immunity provision of the DTSA. The notice requirement applies to "contracts and agreements that are entered into or updated after the date of enactment [of the DTSA]." Therefore, while employers are not explicitly required to provide notice of the immunity to current employees, it may be advisable to amend contracts (or any other agreements that govern the use of a trade secret or other confidential information) with current employees in accordance with the notice requirement of the DTSA.

NO INEVITABLE DISCLOSURE DOCTRINE UNDER THE DTSA

The DTSA also protects former employees by restricting employers from preventing former employees from working at another company on the basis of the inevitable disclosure of trade secrets. Using the inevitable disclosure doctrine, employers in certain states can enjoin a former employee from taking a new job at another company that would inevitably result in the use of the company's trade secrets. The DTSA does not allow for injunctive relief if doing so would "prevent a person from entering into an employment relationship," thereby rejecting the inevitable disclosure doctrine.

SUMMARY

Time will tell whether the DTSA brings conformity to trade secret litigation as the new act does not preclude circuit splits. That being said, the DTSA gives litigants more options in enforcing trade secrets at a juncture where many patent rights are being challenged at the U.S. Patent and Trademark Office. Whether to file a civil trade secret complaint in state or federal court will depend on a multitude of factors, such as the desired results of the plaintiff and whether the immunity provisions will apply. The broad definition of "employee" in the DTSA highlights the importance of non-disclosure agreements and the monitoring of relationships with contractors and vendors (both domestic and abroad) that may have access to confidential information. Moving forward, companies should review their policies and agreements to ensure that they are in compliance with the immunity provisions and have a proper notice in place.

Please click here to view Obama's remarks at the signing of the DTSA.

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[1] *See*, Brian Yeh, "Protection of Trade Secrets: Overview of Current Law and Legislation," p. 6.

[2]*See*, Brian Yeh, “Protection of Trade Secrets: Overview of Current Law and Legislation,” p. 6.

[3]*See*, 18 U.S.C. §1836 (b)(1).

[4]*See*, 18 U.S.C. §1839(4).

[5]*See*, 18 U.S.C. §1839 (5).

[6]*See*, 18 U.S.C. §1839 (6).

[7]*See*, 18 U.S.C. §1836 (b)2(A).

[8]*See*, id.

[9]*See*, 18 U.S.C. §1836 (b)2(F)(iii).

[10]*See*,18 U.S.C. §1836 (b)2(D).

[11]*See*,18 U.S.C. §1833 (b)(1).

[12]*See*, 18 U.S.C. §1833 (b)(2).

[13]*See*,18 U.S.C. §1833 (b)(2).

[14]*See*,18 U.S.C. §1833 (b)(3)(The DTSA does not provide guidance on any verbiage that would constitute sufficient notice).

[15]*See*, 18 U.S.C. §1833 (b)(3)(C).

[16]*See*, 18 U.S.C. §1833 (b)(3)(B).

[17]*See*, 18 U.S.C. §1833 (b)(4)).

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