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The Defend Trade Secrets Act of 2016

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On May 11, 2016, President Obama signed into law the Defend Trade Secrets Act of 2016 ("DTSA"), which has been widely hailed as the "most significant expansion" of federal intellectual property law since the passage of the Lanham Act 70 years ago. This post provides a brief overview of the DTSA and discusses the provisions most likely to impact businesses and trade secret owners.

a. **Summary**

The DTSA amends the Economic Espionage Act, 18 U.S.C. §§ 1831 *et seq*. (the "EEA"), to create a private civil cause of action for trade secret misappropriation. As stated in the official summary of the DTSA, under the new law "[a] trade secret owner may file a civil action in a U.S. district court seeking relief for trade secret misappropriation related to a product or service in interstate or foreign commerce. The bill establishes remedies including injunctive relief, compensatory damages, and attorneys' fees. It sets a three year statute of limitations from the date of discovery of the misappropriation." (Summary: S. 1890 – 114th Congress (2015-2016), at Sec. 2.) Although closely aligned with the Uniform Trade Secrets Act ("UTSA"), adopted in some form by every state except New York and Massachusetts, the DTSA explicitly does not preempt preexisting state laws protecting trade secrets. (*See* 18 U.S.C. § 1838.)

Other provisions of the DTSA (not discussed in this post), require "the Department of Justice [to] submit to Congress and publish a biannual report on trade secret theft outside the

United States" and the "Federal Judicial Center [to] develop, update, and submit to Congress best practices for seizing information and securing seized information." (*Id*., at §§ 4, 6.)

b. *Ex Parte* Seizure

One of the more controversial provisions of the DTSA empowers a district court "upon ex parte application but only in extraordinary circumstances, [to] issue an order providing for the seizure of property necessary to prevent the propogation or dissemination of the trade secret that is the subject of the action." (18 U.S.C. § 1836(b)(2)(A)(i).)

Although seizure might be an invaluable remedy to a trade secret owner, to obtain it they must meet a high burden, both factually and financially. As the text makes clear, *ex parte* seizure will be granted "only in extraordinary circumstances" and the requesting party must also provide security for the payment of damages resulting from wrongful, excessive, and even *attempted* seizure. (*Id.* at § 1836(b)(2)(A) and (B) (setting forth requirements for issuing seizure order and listing required elements of seizure order itself).) If the requirements are met, however, "[a]ny materials seized … **shall** be taken into the custody of the court" pending a hearing that must be scheduled within seven (7) days or "at the earliest possible time". (*See* 18 U.S.C. § 1836(b)(2)(B)(v) (emphasis added).)

c. Damages

The DTSA increases the maximum penalty for trade secret theft (currently $5 million) to the greater of $5 million or 3 times the value of the stolen trade secret. A court may also award "exemplary damages" (triple damages and/or attorneys' fees) upon a finding that the trade secret was "willfully and maliciously misappropriated". (*See* 18 U.S.C. § 1836(b)(3)(B).) A variety of other remedies are available under the DTSA, including "an injunction to prevent any actual or threatened misappropriation" and, "[i]n exceptional circumstances that render an injunction inequitable," the court may condition future use of the trade secret(s) upon the payment of a reasonable royalty. (*See* 18 U.S.C. § 1836(b)(3)(A)-(B).)

d. Whistleblower Immunity and Notice Requirement

The DTSA includes a whistleblower immunity provision that grants civil and criminal

immunity "under any Federal or State trade secret law for the disclosure of a trade secret that (A) is made (i) in confidence to a Federal, State, or local governmental 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." (18 U.S.C. § 1833 (b)(1)(A)-(B).)

Businesses and trade secret owners should familiarize themselves with these provisions of the DTSA because "[i]f an employer does not comply with the [whistleblower immunity and] notice requirement..., the employer may not be awarded exemplary damages or attorney fees ... in an action against an employee to whom notice was not provided." (18 U.S.C. § 1833(b)(3)(C).)

e. New Definitions (And Some Old Ones, Too)

The EEA's definition of "trade secret" remains unchanged under the DTSA, which adds definitions for, among other things, "misappropriation" and "improper means" that are similar to those found in the UTSA. (*See* 18 U.S.C. § 1839(5)-(6) (defining "misappropriation" and "improper means," respectively).) A key distinction, however, is that unlike the UTSA, the DTSA expressly exempts reverse engineering and independent derivation from its definition of "improper means." (*See* 18 U.S.C. § 1839(6)(A)-(B).)

CONCLUSION

Trade secret owners and employers desiring to protect their valuable intellectual property rights should familiarize themselves with the DTSA. Although it is, in many respects, substantially similar to the UTSA already adopted by a majority of states, the remedies afforded under the DTSA – *ex parte* seizure of assets, treble damages and attorneys' fees – will likely incentivize parties to file suit in federal court. Critically, however, the panoply of remedies under the DTSA is not available to an employer/trade secret owner that fails to incorporate a proper whistleblower immunity notice into their agreement with the misappropriating party. Employers and trade secret owners faced with the threat of misappropriation should be certain to incorporate a proper immunity notice in their confidentiality and trade secrets agreements with employees and contractors.