

SEVERAL MONTHS INTO HAVING FEDERAL PROTECTION FOR TRADE SECRETS: WHAT ARE WE LEARNING?

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Labor, Employment and Workplace Safety Alert

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It has been nearly five months since President Obama signed the federal Defend Trade Secrets Act ("DTSA") on May 11, 2016, extending federal protection to trade secrets. In the past few months, employers around the country have been evaluating what to do to ensure their trade secrets are protected under the DTSA. In addition, cases are starting to emerge interpreting the DTSA. Since the DTSA is in its infancy, and many employers are still assessing whether and how to use this new law, this Alert provides some insight into the DTSA nearly five months since it was enacted.

By way of background, effective as of its signing, the DTSA amended the Economic Espionage Act of 1996, which had established criminal penalties for foreign economic espionage and trade secret theft. See 18 U.S.C. § 1836. By creating a new federal civil claim for trade secret misappropriation, the DTSA standardizes the protections afforded trade secrets, the only category of intellectual property that did not have a federal civil remedy for misuse or misappropriation. Prior to the enactment of the DTSA, state laws provided the lone avenue for protecting trade secrets. Forty-eight states have adopted various versions of the Uniform Trade Secrets Act ("UTSA"),^[1] with some states retaining individualized protections of the common law, creating a legal patchwork across the country. The DTSA establishes a federal civil cause of action for trade secret misappropriation and creates federal question jurisdiction and a single uniform body of federal trade secret law. By extending the protections currently afforded patents and copyrights to trade secrets, the DTSA provides an alternative to state trade secret law protection and an opportunity to litigate claims in federal court.

WHAT DOES THE DTSA DO?

The new law defines a trade secret consistent with the UTSA and protects financial, scientific, business, economic, technical, or engineering information in the form of "patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing." 18 U.S.C. § 1839(3). Notably, some of these forms of trade secrets currently are ineligible for patent protection, underscoring the critical impact federal trade secret protection has on certain industries.^[2] In order to qualify as a trade secret, the secrecy of the information must have been maintained through reasonable measures, and it must derive independent economic value from such secrecy. See 18 U.S.C. § 1839(3). Misappropriation occurs when a trade secret is used or disclosed without express or implied consent by a person who (a) acquired knowledge of the trade secret by improper means; (b) at

the time of disclosure or use knew or had reason to know that the trade secret was acquired by improper means; or (c) before a material change in position knew or had reason to know that the trade secret was a trade secret and was acquired by accident or mistake. 18 U.S.C. § 1839(5)(B). Under the DTSA, improper means encompasses theft, bribery, or misrepresentation; however, it excludes acquisition by reverse engineering or independent derivation. 18 U.S.C. § 1839(5)(B). The DTSA allows owners of misappropriated trade secrets related to products or services used in, or intended for use in, interstate or foreign commerce to bring an action. See 18 U.S.C. § 1836(b)(1). These actions under the DTSA must be brought within three years after the misappropriation is discovered or should have been discovered with reasonable diligence. 18 U.S.C. § 1836(d). As a way to protect trade secrets during litigation, a court may not authorize the disclosure of any information alleged to be a trade secret unless the owner has the "opportunity to file a submission under seal that describes the interest of the owner in keeping the information confidential." 18 U.S.C. § 1835(b).

In a departure from the UTSA, the DTSA allows a plaintiff to seek an injunction to seize property in an effort to prevent further disclosure and use of trade secret information. This civil seizure provision, an extraordinary remedy not contemplated by state law, allows the court, on an *ex parte* basis, to authorize civil seizure of property necessary to prevent the propagation or dissemination of trade secrets. 18 U.S.C. § 1836(b)(2). As a safeguard, a court must make specific findings in the seizure order indicating that the order is necessary to prevent dissemination of a trade secret while the plaintiff must establish eight specific requirements: (1) inadequacy of an injunction or other equitable relief; (2) irreparable harm; (3) the balance of harms favors the plaintiff; (4) likelihood of success; (5) the target possesses the trade secret and the property to be seized; (6) a description of the property with reasonable particularity; (7) probable destruction of the property by the target if the plaintiff proceeded with notice; and (8) the plaintiff has not publicized the requested seizure. 18 U.S.C. § 1836(b)(2)(A)(ii). If the court issues a seizure order, then it must take custody of and secure any seized materials and within seven days hold a seizure hearing. As a way to ensure the secrecy of any trade secret information, an interested party may file a motion to encrypt the seized material. Prior to exercising the civil forfeiture option, employers should be aware that moving for an *ex parte* seizure without sufficient evidence at the time of the seizure may subject them to wrongful seizure claims and damages.

Another unique provision establishes whistleblower protections in the form of civil and criminal immunity for individuals who disclose trade secrets to report illegal activity. 18 U.S.C. § 1833(b). The DTSA specifically provides that individuals may disclose trade secrets (1) "in confidence, either directly or indirectly, to a federal, state, or local government official or to an attorney, solely for the purpose of reporting or investigating a suspected violation of law"; or (2) "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). Individuals who file lawsuits alleging retaliation for reporting a suspected violation of law may also disclose related trade secrets to their attorneys, and may use the information in court proceedings, with requirements for filing under seal and prohibiting disclosure. 18 U.S.C. § 1833(b)(2).

As part of the whistleblower immunity provision, the DTSA requires employers to provide "notice of the immunity" to employees "in any contract or agreement with an employee that governs the use of a trade secret or other confidential information." 18 U.S.C. § 1833(b)(3)(A). "Employee" is defined broadly under the act and includes "any individual performing work as a contractor or consultant for an employer." 18 U.S.C. § 1833(b)(4). Documents such as confidentiality agreements, nondisclosure agreements, company codes-of-conduct, proprietary agreements, and noncompetition agreements should contain this notice if entered into or updated after May 11, 2016. As an alternative to including a specific notice in these types of documents,

employers may provide 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." 18 U.S.C. § 1833(b)(3)(B). Employers that fail to comply with the notice requirement may still bring an action but waive their rights to seek (1) the exemplary damages available under the DTSA or (2) any of their own attorneys' fees or costs (awarded when the trade secrets are willfully and maliciously misappropriated). 18 U.S.C. § 1833(b)(3)(C). Similar damages, however, can be pursued under state law claims in those states that have adopted the UTSA.

If successful in an action brought under the DTSA, an employer or "owner" of a trade secret can obtain injunctive relief for actual or threatened misappropriation, monetary damages for actual loss and unjust enrichment or a reasonable royalty, and in cases where there is willful and malicious appropriation, up to two times the amount of monetary damages in addition to reasonable attorney's fees. 18 U.S.C. § 1833(b). To note, in some cases a plaintiff also can be required to pay the defendant's reasonable attorney's fees if the defendant proves that the plaintiff filed a DTSA claim or resisted a motion to terminate an injunction in bad faith. 18 U.S.C. § 1833(b)(3)(D). The new law also aims to promote employee mobility by limiting the court's authority to enjoin a former employee from accepting an offer of employment to those circumstances that involve actual or threatened misappropriations. 18 U.S.C. § 1833(b)(3)(A)(1).

WHEN CAN A CLAIM BE BROUGHT UNDER THE DTSA?

Because the DTSA does not preempt state trade secrets law, employers have the option to proceed under either state or federal law. Depending upon the specific facts and circumstances, there may be certain benefits to litigating through either avenue. Some factors to take into consideration include satisfaction of the federal jurisdictional requirement that a trade secret be used or intended for use in interstate commerce, the applicable statute of limitations period; the need to utilize the civil seizure provision, ability to adequately protect trade secrets during litigation, and the substantive law and procedural tools available. In addition, the DTSA appears to severely limit the applicability of the inevitable disclosure doctrine as injunctions must be based on evidence of "threatened misappropriation" and not merely on the information a person knows. The inevitable disclosure doctrine, which is recognized in certain states, allows an employer to use trade secret law to enjoin a former employee from working in a job that would inevitably result in the use of trade secrets. As many states recognize this doctrine, employers may include this consideration when deciding between pursuing a trade secrets claim under federal or state law or both. Finally, many employers prefer to be in federal court over state court for strategic reasons. If this is a factor, the DTSA provides a means of obtaining federal court jurisdiction even where diversity does not exist between the parties.

WHAT ARE EMPLOYER BEST PRACTICES?

Employers should review and update existing agreements or policies that contain provisions governing the use of trade secrets or other confidential information to include the whistleblower disclosures described above. Employers can work with legal counsel to assess whether it is advisable to amend the contracts to provide the requisite notice provisions and/or cross-reference the contracts to a company policy that explains the reporting authorizations. As a precautionary measure, any policies preventing the acquisition of third parties' trade secrets should be reinforced accordingly. In addition to assessing company agreements for incorporation of the notice provision, employers should review employee termination procedures, return-of-property requirements, and security protocols pertaining to document storage and electronically stored information to ensure trade

secrets are adequately protected so as to satisfy the "reasonable measures" requirement under the DTSA. Finally, given the extraordinary nature of the civil seizure remedy, employers should consider preparing a plan to respond promptly to potential *ex parte* seizure proceedings and to safeguard trade secret information during that process.

WHAT LITIGATION HAS TAKEN PLACE UNDER THE DTSA?

One of the first lawsuits to be filed under the DTSA is *Monsanto Co. v. Chen*, No. 4:16-cv-876 (E.D. Mo.), after a former employee allegedly used sophisticated software capable of performing digital exfiltration and recovery of data to acquire the employer's trade secrets prior to joining a competitor. One day after the filing, the district court granted a temporary restraining order and a preliminary injunction requiring the former employee to return any trade secret information and identify any locations where trade secret information may be stored. Despite presenting a case where the *ex parte* seizure provision could be utilized, Monsanto instead chose to proceed with a replevin action.^[3] Other actions brought under the DTSA include: *M.C. Dean, Inc. v. City of Miami Beach, Florida*;^[4] *Patriot Grp. Int'l, Inc. v. Janus Global Operations LLC*;^[5] *USG Ins. Servs., Inc. v. Bacon*;^[6] and *SOAProjects, Inc. v. Swaminathan*.^[7]

CONCLUSION

The DTSA has provided the long awaited federal protection for trade secrets. To avail themselves of these protections, including the extraordinary seizure remedies, employers need to ensure that their contracts and related policies comply with the notice requirements of the DTSA. Employers also should continue to follow these early DTSA cases to learn how federal courts around the country will be interpreting and applying the DTSA to real life examples.

Notes:

^[1] The UTSA was published by the Uniform Law Commission in 1979 and amended in 1985.

^[2] For example, some recent Supreme Court decisions have limited the extent of patent protections, specifically in the pharmaceutical and technology development industries. See *Alice Corp. v. CLS Bank Int'l*, 134 S. Ct. 2347 (2014) (holding that the abstract idea of an intermediated settlement was not patent-eligible); *Ass'n for Molecular Pathology v. Myriad Genetics, Inc.*, 133 S. Ct. 2107 (2013) (holding that a naturally occurring DNA segment is a product of nature and is not patent-eligible simply because it has been isolated); *Mayo Collaborative Servs. v. Prometheus Laboratories, Inc.*, 132 S. Ct. 1289 (2012) (holding that patents claiming methods for calibrating correct dosage of drugs for autoimmune diseases were invalid for claiming the underlying laws of nature).

^[3] As of September 16, 2016, the *Monsanto* case has been referred to mediation.

^[4] No. 1:16-cv-21731 (S.D. Fla. 2016) (dismissing claims under the DTSA as plaintiff failed to take reasonable measures to protect the secrecy of the information).

^[5] No. 1:16-cv-00907 (E.D. Va. 2016) (dismissing complaint and granting order to compel arbitration).

^[6] No. 2:16-cv-01024 (W.D. Pa. 2016) (pending case alleging violations under the DTSA).

^[7] No. 5:16-cv-03982 (N.D. Cal. 2016) (pending case alleging former manager stole trade secrets to launch a competitor in violation of DTSA).

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