

ALERTS

Congress Passes the Defend Trade Secrets Act of 2016

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On April 27, 2016, the U.S. House of Representatives passed the Defend Trade Secrets Act of 2016, S. 1890 (the “DTSA”). The U.S. Senate had already passed the DTSA on April 4, 2016. The White House has expressed its support of the DTSA, and President Obama is expected to sign it into law within the next few weeks.

The DTSA, among other things, provides owners of trade secrets with a federal private cause of action for the misappropriation of trade secrets. Currently, a patchwork of state laws, not federal law, allows individuals and entities to commence civil actions to protect their trade secrets and seek damages for misappropriation. Historically, federal law governing the protection of trade secrets has been limited to criminal statutes such as the Economic Espionage Act of 1996.

In a previous *Alert*, we discussed an earlier version of this legislation (the Trade Secrets Protection Act of 2014, H.R. 5233) that was designed to provide trade secret owners with a federal private right of action to combat trade secret misappropriation. The legislation has since been modified in various ways and employers and other owners of trade secrets should become familiar with the key provisions.

Key Provisions of the DTSA

- **Private Right of Action:** The owner of a trade secret “related to a product or service used in, or intended for use in, interstate or foreign commerce” has the right to commence a civil action in federal court if

such trade secret is misappropriated or if misappropriation is threatened.

- Ex Parte Seizures: In “extraordinary circumstances,” a court may, upon *ex parte* application, “issue an order providing for the seizure of property necessary to prevent the propagation or dissemination of the trade secret that is the subject of the action.” Before issuing such a seizure order, an applicant must demonstrate to the court that the applicant otherwise would suffer irreparable and immediate injury, and that “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 of granting the application and substantially outweighs the harm to any third parties who may be harmed by such seizure.” The applicant also must demonstrate that the party subject to such an order “would evade, avoid, or otherwise not comply with” a preliminary injunction or temporary restraining order, and that, if the person subject to the order had prior notice of it, that person (or persons acting in concert with that person) “would destroy, move, hide, or otherwise make such matter inaccessible to the court.” An applicant for an *ex parte* seizure order must post an adequate security (as determined by the court). A court issuing an *ex parte* seizure order must hold a hearing no later than the seventh day following the issuance of such order to determine whether the order should be modified or dissolved.
- Injunctions: A plaintiff may seek an injunction to prevent actual or threatened misappropriation. The DTSA places certain limitations on such injunctions. Most importantly, they may not “prevent a person from entering into an employment relationship.” Further, any conditions on employment cannot be based on a person’s mere knowledge of trade secrets (unlike employment conditions imposed under state law based on the inevitable disclosure doctrine). Rather, employment restrictions must be based on “evidence of threatened misappropriation.” The DTSA does not define what constitutes a “threatened misappropriation,” which may result in significant litigation. Injunctions under the DTSA may not conflict with applicable state law prohibitions on “restraints on the practice of a lawful profession, trade, or business.” These limitations were added to the DTSA after certain senators expressed concern that it would interfere with state laws designed to protect employee mobility. These limitations do not, however, limit the injunctions currently available under state law.

- **Damages:** A plaintiff may seek damages for actual loss, plus any unjust enrichment in excess of actual loss, caused by the misappropriation of a trade secret. Alternatively, the plaintiff may collect a reasonable royalty for an unauthorized disclosure or use of a trade secret. A plaintiff also may collect exemplary damages up to twice the amount of damages otherwise awarded in the event of willful and malicious misappropriation of the trade secret.
- **Statute of Limitations:** A civil action must be commenced within three years following the date on which the misappropriation was discovered or should have been discovered with reasonable diligence.
- **Preemption:** The private cause of action set forth in the DTSA does *not* preempt or displace state law governing the protection of trade secrets.
- **Immunity:** The DTSA provides immunity from civil and criminal liability under federal or state trade secret law for individuals who disclose trade secrets in confidence to federal, state or local government officials, or to attorneys, in each case “solely for the purpose of reporting or investigating a suspected violation of law,” or in court filings made under seal. In certain circumstances, an individual who sues his or her employer for whistleblower retaliation may disclose that employer’s trade secrets to an attorney. Under the DTSA, employers must notify their employees, in any employment contract or agreement governing the use of trade secrets or confidential information that is entered into or modified after the DTSA is enacted, of their immunity in such circumstances.

Considerations for Employers

The DTSA provides employers with greater resources to protect trade secrets. Because the private cause of action under the DTSA will not preempt state law, employers will be able to pursue claims under both federal and state law. They also will have access to federal courts to pursue those claims. At the same time, the DTSA imposes additional burdens on employers. Employers will need to make sure that their employment contracts contain the proper notifications as required by the DTSA.

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If you have any questions concerning this *Alert*, please contact your attorney at Schulte Roth & Zabel or one of the authors.

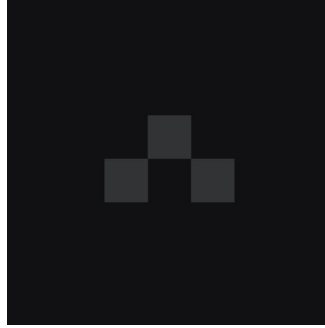
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