

New Federal Trade Secrets Act Becomes Law

Skadden

05/12/16

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Four Times Square
New York, NY 10036
212.735.3000

skadden.com

On May 11, 2016, President Obama signed the Defend Trade Secrets Act of 2016 (DTSA, or Act) into law. The DTSA, among other things, amends the Economic Espionage Act to create, for the first time, a federal private civil cause of action for trade secret misappropriation. The DTSA also allows parties to seek a court order seizing property to prevent the disclosure of trade secrets and permits whistleblowers to disclose trade secrets to governmental entities or in court filings without incurring liability under the law. While the contours of the DTSA will be better understood as courts interpret it, passage of the DTSA highlights the importance of trade secrets in protecting a company's intellectual property assets and introduces powerful new mechanisms for their protection.

Summary of the Defend Trade Secrets Act

Creating a Federal Cause of Action

Until passage of the DTSA, civil trade secret claims were based strictly on state law, which has meant that plaintiffs could only file suit in federal court if they satisfied the diversity jurisdiction requirements. The DTSA creates a federal cause of action, providing trade secret plaintiffs with a more direct route to obtain federal court jurisdiction.

Claims for trade secret misappropriation under the DTSA extend to conduct occurring outside the United States if the offender is a U.S. corporation or U.S. citizen, or if an act in furtherance of the misappropriation was committed inside the United States.

The civil cause of action created by the DTSA does not preempt state law causes of action for misappropriation going forward. Pending state law claims for misappropriation of trade secrets would also not be affected.

What Types of Actions Are Covered?

The DTSA permits an owner of a trade secret that was misappropriated to bring a civil action so long as the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce. The DTSA definition of a "trade secret" refers to several types of information and enumerates a detailed list of the types of information that falls within that definition. While the DTSA amended the definition to be closer to the definition of the same term under the Uniform Trade Secrets Act (UTSA), differences remain. Whether the scope of trade secrets that can be protected under the DTSA will be broader or narrower than under state laws adopting the UTSA remains to be seen.

The Act definition of "misappropriation" includes (1) the acquisition of trade secrets by improper means and (2) the disclosure or use of a trade secret that was either acquired by improper means or pursuant to a confidentiality obligation. "Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy.

Of particular note is that the DTSA permits misappropriation to be found where a person discloses information that was received by accident or mistake if the person had reason to know the information in their possession was trade secret information when it was disclosed. The DTSA also is clear that reverse engineering, independent derivation or any other lawful means of acquisition are not "improper means" under the law.

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Seizure Orders May Be Issued in Extraordinary Circumstances

In addition to pursuing remedies at the conclusion of a case, a plaintiff can make an *ex parte* application to the court to seize property that is the subject of the action in order to prevent the disclosure of those trade secrets. Courts are directed to issue such applications only in extraordinary circumstances, and only where a plaintiff can show that (1) another form of equitable relief would be inadequate, (2) immediate and irreparable injury will accrue, (3) the harm to the applicant outweighs the harm to the person against whom the seizure is sought, (4) the applicant is likely to succeed on the merits, (5) the person against whom the seizure is sought has possession of the trade secret and property to be seized, (6) the application describes the property to be seized with reasonable particularity, (7) the person against whom the seizure is sought would make the trade secret property inaccessible to the court if that person received notice and (8) the applicant has not publicized the requested seizure. A person who suffers damage due to a wrongful seizure has a cause of action against the person who made the *ex parte* application.

The DTSA Permits Injunctive and Monetary Relief, Including Exemplary Damages

The DTSA authorizes the court to impose remedies including (1) issuing an injunction to prevent misappropriation so long as the injunction does not prevent a person from entering into an employment relationship, (2) requiring a party to take affirmative actions to protect a trade secret, (3) requiring the payment of a reasonable royalty in exceptional circumstances, (4) imposing damages for either the actual loss or the amount of unjust enrichment and (5) imposing an award of exemplary damages up to twice the amount of actual damages awarded if the misappropriation is willful and malicious. Additionally, attorneys' fees can be awarded if the plaintiff's claim of misappropriation was made in bad faith, a motion to terminate an injunction is made or opposed in bad faith, or the trade secret was willfully and maliciously misappropriated.

Whistleblowers Who Disclose Trade Secrets to a Governmental Body Are Protected Under the DTSA

The DTSA offers whistleblowers specific protections so that they may disclose trade secrets to federal, state or local governments to report suspected violations of the law or in court proceedings as part of a lawsuit for retaliation.

Employers are required to provide employees with notice of the whistleblower immunity section of the DTSA in any employment agreements that govern the use of trade secret or confidential information. This can be achieved through reference to a policy document that sets forth the employer's reporting policy for suspected violations of law. If an employer does not provide

notice, that employer cannot recover exemplary damages or attorneys' fees. The notice requirement effects all agreements entered into after enactment of the DTSA.

Statute of Limitations

As in most states, private causes of action under the DTSA are subject to a three-year limitations period. For the purposes of determining whether the limitations period expired, "a continuing misappropriation constitutes a single claim of misappropriation."

Practice Points

Although it remains to be seen how federal courts will interpret and apply DTSA, companies should be aware of the following practice points:

- Employers are required to provide notice of the whistleblower immunity sections in any employment agreements that govern the use of trade secret or confidential information entered into after the enactment of the DTSA, so companies should act quickly to ensure compliance with the new law. As noted, companies are permitted to comply with the notice provision through reference to a policy document that sets forth the employer's reporting policy for suspected violations of law.
- The DTSA applies to the foreign conduct of U.S. corporations. Accordingly, companies should ensure that their international operations are aware of and compliant with the DTSA through appropriate training.
- While the possibility of a plaintiff seizing property has received much notoriety, the DTSA explicitly limits such seizures to extraordinary circumstances and a plaintiff must meet numerous requirements before a court can issue a seizure. Accordingly, while the impact of a seizure could be great, the practical effect of the seizure provision is still to be determined.
- The definition of "misappropriation" includes conduct in which a company discloses information that it accidentally or mistakenly received while having reason to know that such information was trade secret information. Thus, companies should carefully consider not only if and when they share their own information that could constitute trade secret information, but how to treat trade secret information received from third parties.

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Contacts

Stuart D. Levi

New York
212.735.2750
stuart.levi@skadden.com

James F. Brelsford

Palo Alto
650.470.3196
852.3740.4700
jim.brelsford@skadden.com

Anthony J. Dreyer

New York
212.735.3097
anthony.dreyer@skadden.com

James J. Elacqua

Palo Alto
650.470.4510
james.elacqua@skadden.com

Jose A. Esteves

New York
212.735.2948
jose.esteves@skadden.com

Bruce Goldner

New York
212.735.2972
bruce.goldner@skadden.com

Douglas R. Nemeč

New York
212.735.2419
douglas.nemec@skadden.com

Kenneth A. Plevan

New York
212.735.3410
kenneth.plevan@skadden.com

P. Anthony Sammi

New York
212.735.2307
anthony.sammi@skadden.com

Resa K. Schlossberg

New York
212.735.3467
resa.schlossberg@skadden.com

Matthew B. Zisk

New York
212.735.3056
matthew.zisk@skadden.com