

CLIENT ALERT

For the First Time, a Federal Civil Cause of Action for Trade Secret Theft

May 11, 2016

Today, President Obama signed the Defend Trade Secrets Act of 2016 (DTSA) into law and with that signature created a Federal civil cause of action for trade secret misappropriation. While previous similar attempts had failed, the DTSA becoming law was all but a certainty. The White House previously stated that it "strongly" supported the DTSA, and both houses of Congress quickly passed the DTSA with sweeping bipartisan support. The willingness of the executive and legislative branches was likely due to a recent surge in cyber-attacks and trade secret theft and the growing economic impact of trade secret theft in the U.S., estimated to be between \$167 and \$503 billion per year.

The DTSA protects trade secrets that take "all forms and types of financial, business, scientific, technical, economic, or engineering information" that are used in or otherwise affect interstate commerce as long two conditions are met. First, the trade secret owner must have taken reasonable steps to protect the secrecy of the information. Second, the trade secret must derive value from its secrecy. These concepts should be familiar to companies and practitioners with some exposure to current trade secret standards because the DTSA defines "trade secrets" much like the Uniform Trade Secrets Act, which has been adopted with modification by 48 states and the District of Columbia.

There are four important takeaways for companies and practitioners looking to familiarize themselves with the DTSA and its consequences:

- The Federal courts are now open for trade secret misappropriation claims, but trade secret owners can still choose to litigate in state courts using state law causes of action.
- Trade secret owners can make *ex parte* applications to the Federal courts requesting law enforcement seizure of property to prevent certain types of trade secret misappropriation.
- Remedies under the DTSA include monetary damages, injunctive relief, and in certain circumstances, attorney fees and up to 2x monetary damages.
- Starting tomorrow, companies must include a notice of limited whistle-blower immunity in all new and updated employment agreements governing trade secret or confidential information.

We elaborate on each of those takeaways below.

Federal Jurisdiction is Available, but Not Mandatory

Until now, companies alleging trade secret misappropriation needed to bring their claims in state courts unless there was another reason (such as diversity of citizenship or a related federal claim) to bring the lawsuit in Federal court. Under the DTSA, a company can always file suit in Federal court. But a company is not required to do so.

The DTSA does not preempt the trade secret laws already adopted by the various states. Like the Federal Lanham Act governing federal trademarks, the DTSA will co-exist with state-level trade secrets law such as the Uniform Trade Secrets Act. Therefore, a company may always bring a lawsuit under state trade secret law in state court if there is a particular strategic reason for doing so. Given the DTSA's availability of *ex parte* seizure applications, which are not available in state law cases, however, it is likely that most litigants will choose to litigate under the DTSA.

Also, like the Uniform Trade Secrets Act, the DTSA is subject to a three-year statute of limitations that begins to run when the misappropriation was discovered or by the exercise of reasonable diligence should have been discovered.

Property Seizure

The DTSA allows for a trade secret owner to file *ex parte* (in other words, without notifying the defendant) seizure applications seeking actual law enforcement seizure of property as necessary to prevent "the propagation or dissemination" of trade secrets. This is the first time such a tool has been available to civil trade secret litigants, and is likely to be used quite often by trade secret owners. Still, obtaining a seizure will be difficult.

A trade secret owner will need to make a four-part showing similar to that for a preliminary injunction: (1) a likelihood of success on the merits, (2) that the owner will suffer an immediate and irreparable harm absent a seizure, (3) that the harm suffered from denying the application would outweigh any harm to the legitimate interests of the alleged misappropriator, and (4) that there is a risk that evidence will be destroyed without the seizure. The trade secret owner must also identify the items to be seized with reasonable particularity and cannot publicize the requested seizure. Moreover, if a temporary restraining order would be adequate to protect the trade secret owner's interests, courts are prohibited from issuing a seizure order.

The DTSA also gives Federal courts various tools to effectuate the civil seizure. For example, the court can "appoint a special master to locate and isolate the misappropriated trade secret information and to facilitate the return of unrelated property and data to the person from whom the property was seized."

Remedies Include Injunctions, Attorney Fees, and up to Double Damages

The DTSA provides remedies in several forms: damages, injunctions, attorney fees, and exemplary damages. Damages may be:

- Actual loss caused by the misappropriation;
- The unjust enrichment caused by the misappropriation of the trade secret that is not addressed in computation of the damages for actual loss; or
- The reasonable royalty for the misappropriator's unauthorized disclosure or use of the trade secret.

A court can increase those damages by up to 2x in what is called exemplary damages if the trade secret misappropriation was willful or malicious. Earlier versions of the DTSA allowed for triple damages. Where there is willful misappropriation, attorney fees are also available to the trade secret owner. Likewise, attorney fees are available to a defendant when a trade secret owner brings a claim for misappropriation in bad faith. Injunctions are not available if the injunction would unfairly limit an employee's ability to work at another company.

The DTSA also allows for criminal fines for trade secret misappropriation equal to the greater of "\$5,000,000 or 3 times the value of the stolen trade secret to the organization."

Whistle-Blower Immunity

Starting tomorrow, May 12, 2016, all employers are required to notify employees and contractors of limited whistle-blower immunity created by the DTSA in any new or updated employment agreements governing trade secret or confidential information. Under the DTSA, whistle blowers are immune from liability for disclosing a trade secret in two limited circumstances:

- Where the trade secret disclosure is made in a complaint or other document filed in a lawsuit or other proceeding where the filing is under seal; or
- Where the trade secret disclosure is made in confidence solely for the purpose of reporting or investigating a suspected violation of law and the disclosure is made to a government official, either directly or indirectly, or made to an attorney.

A company's failure to comply with this notice requirement precludes the company's collection of exemplary damages and attorney fees in any later lawsuit under the DTSA.

How the DTSA will be implemented in court—particularly the seizure provisions—is unknown. Companies with IP to protect should watch these developments very closely. If you have any questions about the DTSA or its effect on your current trade secret protection scheme or litigation strategies, please contact the authors of this alert.

For more information, please contact the professional(s) listed below, or your regular Crowell & Moring contact.

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