

PRESIDENT OBAMA SIGNS THE DEFEND TRADE SECRETS ACT OF 2016:

NEW PROTECTIONS FOR TRADE SECRETS, AND NEW PROTECTIONS FOR EMPLOYEES SUBJECT TO NON-COMPETE AGREEMENTS

PUGH, JONES & JOHNSON, P.C. NEWSLETTER

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With the signing of the Defend Trade Secrets Act (DTSA), there is finally a federal private cause of action for misappropriation of trade secrets. But employers should note that this new tool for protecting proprietary information comes with an obligation to inform employees of new federal whistleblower protections under the Act, or risk being unable to make full use of the Act's remedies.

On May 11, 2016, President Obama signed into law the Defend Trade Secrets Act of 2016,¹ after the bill received bipartisan support in Congress this past April, passing unanimously in the Senate and subsequently being passed with a vote of 410-2 in the House of Representatives.²

The DTSA (S. 1890³) was designed to join other provisions of the United States Code, Chapter 90, regulating economic espionage and trade secrets. This chapter of the Code is frequently cited as the Economic Espionage Act of 1996 ("EEA").

For those watching trade secrets law, the eagerly awaited provision that the DTSA adds to the EEA by amending 18 U.S.C. 1836(b),

creating a private civil action in federal district court for misappropriation of a product or service intended to be used, or

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actually used, in interstate or foreign commerce. In addition to allowing for injunctive relief, the Act sets forth mechanisms for the civil seizure of property when necessary to prevent misappropriation of trade secrets.



Advocates of the DTSA have noted that most states, such as Illinois and Indiana, have adopted the Uniform Trade Secrets Act, but agree that effective protection of trade secrets remains difficult and elusive. Versions of the Uniform Act may vary by state, and in the modern day and age, any alleged misappropriation almost by definition crosses state lines, making effective private litigation increasingly difficult. Senator Orin Hatch, one of the sponsors of S. 1890, explained that a federal civil action is necessary because "trade secrets are the only form of U.S. intellectual property where the owner does not have access to a Federal civil remedy for misuse or misappropriation," resulting in

¹ <https://www.congress.gov/bill/114th-congress/senate-bill/1890/text>

² <https://www.congress.gov/bill/114th-congress/senate-bill/1890/all-actions?overview=closed>

³ S. 1890, 114th Cong. (2016).

“billions of dollars each year [] lost to trade secret theft, which stifles innovation by deterring companies from investing in research and development.”⁴ Senator Hatch’s statement in the Federal Register also notes that the Act “provides trade secret owners access to both a uniform national law and the ability to make their case in Federal courts.” The remedies under the DTSA echo those available under the Illinois Trade Secrets Act.⁵ Such remedies may include: an injunction to prevent actual or threatened misappropriation; damages for actual loss; exemplary damages in an amount no more than two times the actual damages if the misappropriation is proven to be wilful or malicious; and attorneys’ fees to the prevailing party. Under the new federal provisions, any

actions are to be commenced no later than three years after the alleged misappropriation was or should have been discovered.⁶

The DTSA does more than provide businesses with another tool to protect trade secrets. It also offers protections to the employees who may have knowledge of trade secrets. Anticipating a practical need for disclosure in government actions or investigations, the DTSA amends the EEA by providing civil and criminal protections to individual whistleblowers for disclosure of trade secrets “in confidence” to government authorities. Section 7 of the DTSA amends 18 U.S.C. §1833 to provide immunity (1) when the individuals make such disclosures “to a Federal, State, or local government official, either directly or indirectly, or to an



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attorney” for the sole “purpose of reporting or investigating a suspected violation of law,” or (2) when an individual discloses trade secret information under seal “in a complaint or other document filed in a lawsuit or other proceeding.”⁷ Under these provisions, the DTSA defines “employee” to include independent contractors and consultants.

The DTSA goes a step further in making sure that employees or

⁴ <https://www.congress.gov/congressional-record/2016/04/04/senate-section/article/S1626-2>

⁵ Illinois Trade Secrets Act, 765 ILCS 1065 *et seq.*

⁶ <http://www.ilga.gov/legislation/ilcs/ilcs3.asp?ActID=2239&ChapterID=62>

⁷ S. 1890, 114th Cong., SEC. 7., Immunity from Liability for Confidential Disclosure of a Trade Secret to the Government or in a Court Filing (2016).

contractors are aware of their protections by giving employers a noticeable incentive to comply with the Act's notice requirement. The Act requires employers to provide notice of this federal immunity "in any contract or agreement with an employee that governs the use of a trade secret or other confidential information."⁸ Significantly, failure to provide such notice could hurt employers in subsequent efforts to use the DTSA's civil action provisions to prevent *unlawful* disclosure of trade secrets by an employee. In short, employers who fail to comply with the notice requirement "may not be awarded exemplary damages or attorney fees . . . in an action against an employee to whom notice was not provided."⁹ The Act's provisions for whistleblower immunity and notice to employees may have been influenced by the federal government's recent attention to potentially abusive use of non-compete agreements, which may be required even when the employee is unlikely to have access to trade secret information, and which are believed to negatively affect wages.¹⁰

What does this mean for your business? First and foremost, any business considering pursuing a trade secret action should discuss all options in detail with legal counsel, keeping in mind that while some state courts are difficult

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places for employers to litigate, federal court is not necessarily the best option for every employer or for every trade secret case. Any decision to pursue a civil claim should be made only after careful, case-by-case consideration of all factors, such as costs, potential parties, available evidence, and the length of typical trade secret cases, in addition to forum-specific remedies and other rules. For businesses or individuals previously undecided as to whether to pursue

a misappropriation case, non-preemptive access to the federal court system constitutes an important factor to add to an already complicated analysis. Notably, many in the legal community have advocated for the passage of versions of this Act for several years now, with the hope that access to the federal court system for private litigants would add an important weapon to the fight against trade secret theft.¹¹

Second, from a compliance perspective, if your business model involves the necessary disclosure of trade secret information to employees or contractors, the immunity provisions of the amended EEA may be of more immediate concern. Not only should you keep in mind that the amended EEA provides protections to whistleblowers, but you should also confirm that your internal policies, procedures, handbooks, and employee or consultant contracts make appropriate disclosures and do not otherwise conflict with the EEA.

⁸ *Id.*

⁹ *Id.*

¹⁰ See Ryan Burke, The White House Blog, <https://www.whitehouse.gov/blog/2016/05/05/what-you-need-know-about-non-compete-agreements-and-how-states-are-responding>

¹¹ Defend Trade Secrets Act of 2015, S. 1890, 114th Cong. (2015); Defend Trade Secrets Act of 2015, H.R. 3326, 114th Cong. (2015); Trade Secrets Protection Act of 2014, H.R. 5233, 113th Cong. (2014); 6 Defend Trade Secrets Act of 2014, S. 2267, 113th Cong. (2014). See Four Reasons to Enact a Federal Trade Secrets Act, 19 Fordham Intellectual Property, Media & Entertainment Law Journal 769 (April 2009).

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