



## **ARE Trade Secret Law Alert: Defend Trade Secrets Act of 2016**

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On Wednesday, May 11, 2016, President Obama signed into law the Defend Trade Secrets Act of 2016 (“DTSA”).

The DTSA amends Chapter 90 of Title 18 of the U.S. Code, the Economic Espionage Act of 1996, to allow a private federal civil action by individuals whose trade secrets have been misappropriated. Prior to enactment, injunctive and monetary relief for trade secret violations were only available in *state* courts; the federal courts could only hear criminal prosecution of such violations.

The desire for an alternative to state courts is the driving factor behind the DTSA. The intent is to create a single national system for trade secret protection, in light of the interstate nature of theft of trade secrets, the possibility for differing state standards for enforcement, and the greater subpoena and injunctive power of federal courts.

### **Background: Trade Secrets Defined**

The Economic Espionage Act of 1996 establishes, in its definition section (18 USC § 1839), the following definition for “trade secret”:

“the term 'trade secret' means all forms and types of financial, business, scientific, technical, economic, or engineering information, including 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 if—

- (A) the owner thereof has taken reasonable measures to keep such information secret; and
- (B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, the public.”

The DTSA uses this definition as the foundation of its changes to trade secret protection.

The DTSA features three main alterations to Chapter 90:

### **Creating a Private Federal Civil Cause of Action for Trade Secret Theft**



“Federal Jurisdiction for Theft of Trade Secrets” is the most significant section of the DTSA. This law amends 18 USC § 1836 (which, prior to enactment of the DTSA, stated that only the Attorney General could bring a civil action for theft of trade secrets) to allow the owner of a trade secret to bring a civil action if said secret is “related to a product or service used in, or intended for use in, interstate or foreign commerce.” The statute of limitations for this new civil action is three years from the date that the misappropriation of trade secrets was or should have been discovered, and the remedies available in such an action include reasonable injunctive relief, the choice of a reasonable royalty or actual and unjust enrichment damages, and in the case of willful violation, double damages.

The DTSA goes on to authorize federal judges, on an ex parte application “in extraordinary circumstances,” to issue orders for seizure of private property to protect against further propagation or dissemination of trade secrets, with hearings to follow closely to confirm the propriety of the seizure, and an additional cause of action against the applicant if a seizure was improper.

Next, the DTSA updates the definition section of the Economic Espionage Act to define misappropriation of trade secrets for civil purposes, enabling the civil actions described above, and changes the definition of “trade secret” above by replacing “the public” at the end with “another person who can obtain economic value from the disclosure or use of the information.”

The DTSA also renames 18 USC § 1836 from “Civil proceedings to enjoin violations” to “Civil proceedings” and establishes that the DTSA changes take place upon enactment and apply to all claims arising out of acts taken after the effective date.

### **Strengthening Criminal Penalties for Trade Secret Theft**

“Trade Secret Theft Enforcement” strengthens the criminal provisions of the Economic Espionage Act. Where the pre-DTSA limit allowed on criminal fines for theft of trade secrets is \$5,000,000, the DTSA authorizes fines to be the greater of \$5,000,000 or triple the value of the stolen secret, as well as protecting an owner of trade secrets from losing that protection because of a court filing.

The DTSA also adds misappropriation of trade secrets to the list of “racketeering offenses” predicate to a RICO (Racketeer Influenced and Corrupt Organizations Act) prosecution.

### **Immunizing Corporate Whistleblowers from Liability for Trade Secret Theft**

“Immunity from Liability for Confidential Disclosure of a Trade Secret to the Government or in a Court Filing” alters 18 USC § 1833 to state that there is no liability for misappropriation of trade secrets for acts performed by a corporate whistleblower (“in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney...solely for the purpose of reporting or investigating a suspected violation of law”).



Importantly, to avoid losing entitlement to certain remedies, employers must advise their employees of this whistleblower immunity “in any contract or agreement with an employee that governs the use of a trade secret or other confidential information.” Thus, companies will have to review their employment agreements to insure compliance. This modification that may also need to be made to NDAs going forward because the definition of employees who require notice includes “any individual performing work as a contractor or consultant for an employer.”

Additionally, the DTSA’s changes state that there is no liability for reporting a trade secret under seal in a lawsuit, nor for disclosure for a trade secret to one’s own attorney during as preparation for a workplace retaliation lawsuit, as long as the trade secret is filed under seal and is not disclosed without a court order.

## **Other Sections**

The remaining sections of the DTSA deal with procedural matters such as the title of the act, the sense of Congress that additional trade secret protection is needed, and several orders for reports from government agencies concerning American trade secrets stolen abroad and best practices for the seizure and storage of electronically-stored information.

We are continuing to analyze and follow developments associated with the new law, and will be posting more reports on our website. Look out for our upcoming publications and speaking engagements on the scope and impact of the DTSA.

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