



The Defense of Trade Secrets Act of 2016 Enhanced Protection for Confidential Information and Trade Secrets

ON MAY 11, 2016, the Defense of Trade Secrets Act (“DTSA”) took effect. The DTSA amends the Economic Espionage Act, which is primarily a criminal law enforcement statute that did not provide a private right of civil legal action for businesses.

The DTSA enhances the ability of businesses to protect confidential trade secret assets by creating a federal cause of action. Under the DTSA, businesses now have the right to sue in federal court for the misappropriation of trade secrets. While it will be some time before we know how the courts will address the DTSA within the current context of many different state laws for trade secrets, the goal is to provide businesses with predictability and consistency in this area of law.

This article summarizes the key elements of the DTSA that your company should understand. It also includes several recommendations for best practices under the DTSA that will allow your company to utilize the protections and remedies available under this law. These best practices will supplement other efforts of your company to protect its confidential information and trade secrets.

What You Need To Know

Definitions: “Trade secret,” “misappropriation,” and “improper means” are defined broadly and consistent with most state trade secrets laws.

Cross-Border Protection: Protects trade secrets that are related to a product or service used, or

intended to be used, in interstate or foreign commerce. Companies that operate across state lines or internationally will be able to take advantage of the DTSA.

Retroactivity: Does not apply retroactively, only to conduct after May 11, 2016.

Pre-emption: Does not pre-empt state laws. Businesses can still pursue remedies under state law.

Court Jurisdiction: Federal courts have original, but not exclusive, federal jurisdiction; claims may be brought in federal court or state court under applicable law.

Remedies: Remedies are similar, but not identical, to remedies under many state trade secrets laws and include: injunctive relief; damages for actual loss; damages for unjust enrichment; damages based on a reasonable royalty; exemplary damages (up to double) for willful and malicious conduct; and attorney’s fees to the prevailing party in certain circumstances, including if the trade secret was willfully and maliciously misappropriated.

Criminal Penalties: Includes increased criminal penalties; the greater of \$5 million or three times the value of the trade secret to the victim (including research and design costs).

Ex Parte Seizure: In limited circumstances, with a court order law enforcement may seize a defendant’s computers or other property without

notice or opportunity to be heard. The circumstances in which a seizure order may be issued are substantially limited, and applicable only in “extraordinary circumstances.” However, if the requirements are satisfied, businesses will be able to quickly prevent additional misappropriation and limit exposure of trade secrets while the DTSA case is pending.

The “inevitable disclosure” doctrine: The “inevitable disclosure” doctrine applicable in some states is expressly rejected, and any injunction under the DTSA that would prevent or restrict a person’s employment cannot conflict with state law regarding restraints on an individual’s lawful profession, trade or business.

Whistleblower protection and whistleblower immunity notifications to employees, contractors and consultants: In all contracts and agreements with employees, contractors or consultants who perform work for the business, the business must include an express, written whistleblower immunity notification for specific types of trade secrets disclosures that address the use of a trade secret or other confidential information. Failing to include the immunity disclosure will prevent a business from obtaining exemplary damages or attorney’s fees (which are two significant remedies under the DTSA) against an employee, contractor or consultant to whom notification was not given.

Three-year statute of limitations: The statute of limitations begins to run “after the date on which the misappropriation with respect to which the action would relate is discovered or, by the exercise of reasonable diligence, should have been discovered.”

What You Need To Do

Determine whether the law applies: Inventory and review your company’s confidential and proprietary information and determine which information qualifies for trade secret protection

under the DTSA and applicable state law.

Audit current practices: Determine that current practices are in place to protect trade secrets and confidential information, and, if not, implement written policies and offer corresponding training to all appropriate personnel.

DTSA Whistleblower Immunity Notice: Verify all contracts and agreements that include confidentiality requirements entered into on or after May 11, 2016, with employees, contractors and consultants (including vendors, service providers, etc.) include the proper whistleblower immunity notifications. This is a critical action item if your company wants the ability to utilize all of the rights and protections available under the DTSA.

Existing agreements: Identify, inventory and review all current confidentiality, non-competition and non-disclosure agreements with employees, contractors and consultants. Make sure that all current best practices for such agreements are included and that they take into account the latest requirements under the DTSA. All such existing contract forms, as well as handbooks, company confidentiality and non-disclosure policies and procedures, should be updated and amended to include whistleblower immunity notifications.

Studies show that the theft of trade secrets is big business, costing companies as much as \$300 billion annually and that 77 percent of the time the misappropriation is alleged to have been done by an employee or former employee. Now is the best time to make sure that your company’s confidential information and trade secrets are protected to the full measure of the law.

If you would like to review this issue further, please contact Cheryl Tama Oblander or the Aronberg Goldgehn attorney with whom you normally work.