# New Trade Secrets Law: What it Means for Your Business

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On May 11, 2016, President Barack Obama signed into law the landmark Defend Trade Secrets Act ("DTSA"), which amends the Economic Espionage Act. The DTSA, which was passed almost unanimously by Congress, creates a new federal civil cause of action of trade secret misappropriation that allows for litigation in the federal courts. Notably, while affording a new federal protection for trade secrets, the DTSA creates a new whistleblower immunity for disclosures made solely for the purpose of reporting and investigating a suspected violation of law. The new law also requires that employers provide notice to their employees and individual contractors of this immunity in their respective contracts.

Here are some of the key take-aways from the new law:

**1. Federal Cause of Action for Trade Secret Misappropriation.**

The DTSA, through its amendments to the Economic Espionage Act (18 U.S.C. §1831, *et seq.*) provides the owner of a trade secret with an avenue to the federal courts for resolution of trade secret misappropriation claims, provided that "the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce." Additionally, this new federal law is intended to establish uniform legal standards, rules, procedures, and remedies for litigants in a trade secret action.

Prior to the DTSA, trade secret claims were only resolved in a federal court when the parties were from different states (diversity jurisdiction) or the trade secret claim was joined with certain other federal claims which provided a federal court with federal question jurisdiction and supplemental jurisdiction over any state trade secret claims. Consequently, most trade secret claims were decided by state courts under state law. The resulting patchwork of state trade secret decisions led to the adoption in 1979 of the model Uniform Trade Secrets Act ("UTSA"), which was eventually enacted in various forms by 48 of the 50 states. Despite its widespread enactment by the states, the UTSA has not provided the uniformity originally envisioned in the law.

The new DTSA by no means guaranties lockstep uniformity either. Federal courts frequently diverge on the interpretation of federal laws, and the many ambiguities of the DTSA provide no reason to expect a different outcome here.

**2. No Preemption of State UTSA Laws.**

Adding to its complexity, the DTSA does not eliminate or preempt existing state laws (subject to item (6) below). In fact, the DTSA was modeled in many respects after the UTSA, and, therefore, the new federal law and the various state UTSA laws include many provisions in common. These provisions include the definitions of "trade secret" and "misappropriation," and provisions relating to remedies such as for injunctive relief, actual damages, damages for unjust enrichment, a reasonable royalty in lieu of damages, exemplary damages (capped at two times actual damages) and attorneys' fees. Accordingly, trade secret owners have greater flexibility with respect to where they choose to bring an action against an alleged offender. Moreover, in cases not involving interstate commerce and those not brought by the "owner" of the trade secret, a litigant may have no choice but to proceed under applicable state law.

**3. Seizure of Property.**

An innovation in the DTSA over prior law is the *ex parte* seizure provision that allows a plaintiff to seek an *ex parte* court-ordered property seizure necessary to prevent disclosure and/or dissemination of a trade secret. The request can be made by affidavit, even before any litigation has commenced. Such orders are conditioned on the plaintiff posting a bond, and may be granted only in extraordinary circumstances, and in compliance with highly controlled protocols. For example, only federal law enforcement can perform a seizure (with necessary assistance from state officials), and the seized material must be sorted by a special master under confidentiality restrictions. The DTSA requires that the Federal Judicial Center, within two (2) years, recommend best practices for seizing and securing materials subject to seizure orders.

**4. RICO.**

Another innovation is that certain criminal trade secret violations (18 U.S.C. §§ 1831 and 1832) under the Economic Espionage Act can now be used to build a case under the Racketeer Influenced and Corrupt Organizations Act ("RICO").

A major component of civil and criminal RICO cases is a "pattern of racketeering activity." Predicate racketeering acts (which may ultimately form a pattern) consist of violations of particular statutes enumerated under RICO. The DTSA includes an amendment to RICO that now adds existing criminal provisions under the Economic Espionage Act to this list of statutes, specifically criminal economic espionage and criminal theft of trade secrets. Accordingly, plaintiffs (or the government in a criminal case) can now use violations of the Economic Espionage Act as predicate acts in attempting to establish a pattern of racketeering. This increases the stakes with respect to trade secret theft, particularly because RICO provides for the possibility of treble damages for successful plaintiffs.

However, a trade secret misappropriation that would form the basis of a civil DTSA action may not be a RICO predicate act if the DTSA claim does not rise to the level of a criminal trade secret violation of the Economic Espionage Act.

**5. Protection of Employee Mobility and the "Inevitable Disclosure Doctrine."**

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The DTSA explicitly precludes the use of the inevitable disclosure doctrine to support injunctions under the DTSA. The inevitable disclosure doctrine was first judicially created by the Seventh Circuit Court of Appeals in *Pepsico v. Redmond*, 54 F.3d 1262 (7th Cir. 1995) and the doctrine provides that, under certain circumstances, an individual possessing knowledge of a company's trade secrets may be barred from taking a similar job at a competing company based on the premise that the individual would inevitably disclose the former company's trade secrets to the individual's new competing employer. The DTSA provides that in circumstances where there is evidence of actual or threatened misappropriation, the court can condition employment on there being built-in protections against disclosure - but cannot enter an order barring new employment altogether with a competitor based solely on what the individual knows. Arguably, with respect to claims under state law, the inevitable disclosure doctrine survives in the states that currently recognize the doctrine. Employers, employees and their legal counsel should monitor the law in those states to see whether the DTSA erodes the use of this doctrine to support orders preventing new employment with competitors under state law.

**6. Whistleblower Protection and Employee Notice.**

As noted above, the DTSA follows the trend in the law to give whistleblowers increased protection. Specifically, the DTSA provides immunity from civil and criminal liability under any state or federal trade secret law to whistleblowers who confidentially disclose trade secrets to an attorney or to federal, state or local officials where the disclosure "is solely for the purpose of reporting or investigating a suspected violation of law." Note, this may be an instance where the DTSA imposes this whistleblower immunity with respect to state trade secret laws, despite language elsewhere that the DTSA does not preempt state trade secret laws.

The DTSA requires employers to provide notice of the whistleblower exception to employees in any contract with an employee or individual contractor that imposes confidentiality obligations on him/her and is entered into or updated after the day that the DTSA was enacted (May11, 2016); however, failing to do so does not result in the employer losing all rights under the contract or the DTSA - just the ability to obtain certain relief, specifically attorneys' fees and exemplary damages in actions filed under the DTSA. If the employer has a written policy that provides such notice, the contract notice may, alternatively, simply cross-reference the employer's policy.

The DTSA presents yet another strong argument for organizations to have written contracts and policies with its employees and contractors concerning trade secret confidentiality. The inability to provide contractual notice (because there is no written contract) might ipso facto cause a waiver of the chance for exemplary damages and attorneys' fees in the event of a breach of confidentiality. More importantly, and apart from the DTSA, employment contracts, handbooks and policies remain essential building blocks for establishing a strong and enforceable trade secrets program.

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