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## Congress Creates Federal Right of Action for Trade Secret Misappropriation

MAY 16, 2016

On May 11, President Obama signed into law the Defend Trade Secrets Act of 2016 (DTSA), which enables companies to go to federal court to sue for misappropriation of trade secrets.<sup>1</sup> The new federal right of action for owners of stolen or misappropriated trade secrets will allow them to seek damages or injunctive relief, including *ex parte* seizures.<sup>2</sup> Previously, only federal prosecutors could bring trade secret misappropriation cases under federal law. Private plaintiffs had to rely exclusively on state law.<sup>3</sup>

The DTSA includes a whistleblower immunity provision that raises an immediate compliance issue concerning companies' confidentiality agreements. Whistleblowers are granted immunity for disclosure of a trade secret in two circumstances: (i) to a government official "solely for the purpose of reporting or investigating" a suspected legal violation or (ii) in a retaliation suit to their attorney or in a document filed under seal.<sup>4</sup> Companies must provide notice of this whistleblower immunity in "any contract or agreement" with an employee (including any individual performing work as a contractor or consultant) "that governs the use of a trade secret or confidential information," though they may do so by cross-referencing a freestanding policy that addresses the immunity.<sup>5</sup> Failure to provide the required notice would deprive an employer of the possibility of getting exemplary damages or attorney's fees in a federal trade secret misappropriation case against an employee.

Under the DTSA, trade secrets encompass "all forms and types of financial, business, scientific, technical, economic, or engineering information" so long as the owner of the trade secret takes reasonable measures to keep the information secret and the information is valuable because it is not generally known or readily ascertainable through legitimate means.<sup>6</sup>

Other key provisions include:

**Ex Parte Seizures:** In "extraordinary circumstances," a court may "issue an order providing for the seizure of property necessary to prevent the propagation or dissemination" of a trade secret provided, at a minimum:

1. traditional equitable relief available under Rule 65 is inadequate;

2. absent a seizure, “immediate and irreparable injury will occur”;
3. the harm to the applicant of denying the seizure is greater than the “legitimate interests of the person against whom seizure would be ordered” and “substantially outweighs the harm to any third parties”;
4. the applicant is likely to succeed in showing that the person against whom seizure would be ordered either misappropriated or conspired to misappropriate a trade secret;
5. “the person against whom the seizure would be ordered has actual possession of the trade secret and any property to be seized”;
6. the matter to be seized, and its location, are described with “reasonable particularity”;
7. if notice were provided to the person against whom seizure would be ordered, the matter to be seized would be destroyed, moved, hidden or otherwise made inaccessible to the court; and
8. “the applicant has not publicized the requested seizure.”<sup>7</sup>

**Exemplary Damages:** If a trade secret is willfully and maliciously misappropriated, a court may award exemplary damages of not more than two times the amount of compensatory damages.<sup>8</sup>

**Attorney's Fees:** “[I]f a claim of the misappropriation is made in bad faith, which may be established by circumstantial evidence, a motion to terminate an injunction is made or opposed in bad faith, or the trade secret was willfully and maliciously misappropriated, [a court may] award reasonable attorney's fees to the prevailing party.”<sup>9</sup>

**Compulsory Royalties in Exceptional Cases:** In “exceptional circumstances that render an injunction inequitable,” the continued appropriation of the trade secret may continue with the payment of a reasonable royalty.<sup>10</sup>

**Injunctive Relief Regarding Conditions of Employment:** A court “may” grant an injunction “to prevent any actual or threatened misappropriation” so long as the relief does not “prevent a person from entering into an employment relationship, and that conditions placed on such employment shall be based on evidence of threatened misappropriation and not merely on the information the person knows . . . .”<sup>11</sup> The equitable relief must not otherwise conflict with applicable state law prohibiting restraints on employment.<sup>12</sup>

*If you would like assistance with updating your company's confidentiality agreements and/or policies (e.g. non-disclosure agreements, employment or independent contractor agreements, employee handbooks, and/or severance agreements) to reflect this new notice obligation, please contact a member of WilmerHale's [Labor and Employment Group](#).*

<sup>1</sup> See <https://www.congress.gov/114/bills/s1890/BILLS-114s1890enr.pdf>.

<sup>2</sup> DTSA § 2(a) (amending 18 U.S.C. § 1836(b)(1)) (“An owner of a trade secret that is misappropriated may bring a civil action under this subsection if the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce.”).

<sup>3</sup> Forty-seven states and Washington DC, have adopted all or part of the Uniform Trade Secrets Act (UTSA). With the passage of the DTSA, plaintiffs may pursue claims under both the DTSA and state law, i.e., the DTSA does not preempt state law versions of the UTSA. *Id.* § 2(f); *see also* 18 U.S.C. § 1838.

<sup>4</sup> DTSA § 7(a) (amending 18 U.S.C. § 1833 (b)).

<sup>5</sup> *Id.*

<sup>6</sup> *Id.* § 2(b); 18 U.S.C. § 1839(3).

<sup>7</sup> DTSA § 2(a) (amending 18 U.S.C. § 1836(b)(2)(A)).

<sup>8</sup> *Id.* (amending 18 U.S.C. § 1836(b)(3)(C)) (“[I]f the trade secret is willfully and maliciously misappropriated, [a court may] award exemplary damages in an amount not more than 2 times the amount of the [compensatory] damages awarded . . .”).

<sup>9</sup> *Id.* (amending 18 U.S.C. § 1836(b)(3)(D)).

<sup>10</sup> *Id.* (amending 18 U.S.C. § 1836(b)(3)(A)(iii)).

<sup>11</sup> *Id.* (amending 18 U.S.C. § 1836(b)(3)(A)).

<sup>12</sup> *Id.* (amending 18 U.S.C. § 1836(b)(3)(A)(i)(II)).

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