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ELECTRONIC DISCOVERY & INFORMATION GOVERNANCE

Tip of the Month

Tip of the Month: The Defend Trade Secrets Act—A Potentially Powerful Weapon for Protecting Trade Secrets

Scenario

A large technology company based in California suspects that a former employee downloaded copies of files containing corporate trade secrets before leaving the company to join the US office of an international competitor. The company fears that the employee may disclose its highly valuable trade secrets to the new employer, leaking information in both the United States and abroad. The company's general counsel, who has experience litigating trade secret misappropriation claims in California state court, is concerned that the state's trade secrets act may not adequately prevent the disclosure of the company's trade secrets. Aware of the recent passage of a federal trade secrets act, the general counsel asks if there are any advantages to bringing a claim of trade secret misappropriation under the new federal law.

Overview of the Defend Trade Secrets Act

On May 11, 2016, President Barack Obama signed the Defend Trade Secrets Act of 2016 ("DTSA" or the "Act"), which created a new federal private cause of action for trade secret misappropriation. Prior to passage of the DTSA, such claims were governed almost exclusively by state law, with 48 of the 50 states adopting some version of the Uniform Trade Secrets Act ("UTSA"). Although plaintiffs establishing diversity or concurrent jurisdiction could file suit in federal court, many plaintiffs bringing claims of trade secret misappropriation had no choice but to file suit in state court. Now, under the DTSA, the owner of a trade secret may bring a civil action in federal district court for acts of misappropriation if the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce. Similar to the UTSA's definition of misappropriation, the DTSA's includes the acquisition or disclosure of a trade secret (1) that was acquired by improper means, (2) where there was a duty to maintain the secrecy of the trade secret or (3) where the trade secret was acquired by accident or mistake.

Key provisions in the DTSA include:

- Ownership Requirement: Unlike certain state trade secret statutes, the DTSA permits only owners of the asserted trade secret to bring a claim of misappropriation.
- Ex Parte Seizures: A plaintiff may, on an *ex parte* basis, file an application requesting an order "providing the seizure of property necessary to prevent the propagation or dissemination" of the asserted trade secret. To obtain such relief, a plaintiff must satisfy several strict requirements set forth under the Act, and, even then, the DTSA cautions that such an order should be issued only in "extraordinary circumstances."

- Expedited Discovery: If a seizure order is issued, then a hearing must be held within seven days to determine if the plaintiff can prove facts sufficient to support the order. The DTSA expressly permits modification of the usual time limits for discovery "to prevent the frustration of the purposes" of the seizure hearing.
- Disclosure Protections: Under the DTSA, district courts "may not authorize or direct the disclosure of any information the owner asserts to be a trade secret unless the court allows the owner the opportunity to file a submission under seal that describes the interest of the owner in keeping the information confidential."
- No Preemption: The DTSA explicitly states that it does not preempt any law, thus opening the door for plaintiffs to bring multiple tort claims based on the same nucleus of facts relating to the misappropriated trade secret. California courts, for example, have held that a trade secret misappropriation cause of action preempts any related tort claims.
- Remedies: The DTSA provides injunctive relief and monetary damages. Under the Act, a court may issue an injunction prohibiting actual or threatened misappropriation. Damages available under the Act include actual loss, unjust enrichment or reasonable royalties. Exemplary damages of no more than double the amount awarded are available in instances of willful and malicious misappropriation.
- Attorney's Fees: A prevailing party is entitled to an award of reasonable attorney's fees under the DTSA where (1) the trade secret is willfully and maliciously misappropriated, (2) the claim of misappropriation is made in bad faith or (3) a motion to terminate an injunction is made or opposed in bad faith.
- No "Inevitable Disclosure" Doctrine: Some states permit a plaintiff to prove trade secret misappropriation by showing that a defendant's new employment will lead to the "inevitable disclosure" of the trade secret. The DTSA rejects this doctrine and states that a district court may not issue an injunction that prevents an individual from obtaining a new job or places conditions on an individual's employment based solely what that person knows.
- Employment Agreement Notices: The DTSA provides immunity to whistleblowers who disclose a trade secret to (1) government officials for the purpose of reporting violations of law or (2) an attorney or court in connection with an anti-retaliation lawsuit relating to the individual's whistleblower activities. The Act requires employers to provide notice of such immunity "in any contract or agreement with an employee that governs the use of a trade secret or confidential information."

Addressing the Threat of International Misappropriation

The Act itself acknowledges the growing threat of international trade secret misappropriation and the current limitations of trade secret owners to prevent misappropriation abroad. To gain a better understanding of this issue, the DTSA requires the Attorney General, in collaboration with other government agencies, to issue a report—one year after the passage of the Act and then on a biannual basis—detailing, among other things, the scope of theft of US trade secrets occurring outside of the United States, the involvement of foreign governments in the theft of US trade secrets and the ability of US trade secret owners to prevent trade secret theft abroad. The report also must include recommendations to the executive and legislative branches of actions that may be taken to reduce the threat of international trade secret misappropriation and protect US companies from such misappropriation.

In the short term, US companies have limited means to combat the misappropriation of their trade secrets in foreign countries. However, by bringing a claim in federal court under the DTSA,

a plaintiff can attempt to seek foreign discovery under the Hague Convention so long as the foreign entity resides in a country that is a signatory to the convention. While discovery under the Hague Convention may be limited, it provides plaintiffs with a discovery option that is not available in state court.

Conclusion

The DTSA has the potential to be a powerful weapon for US companies seeking to protect their trade secrets from misappropriation. While there are some similarities to state-based trade secret laws, the DTSA includes several new tools that companies can employ to prevent the disclosure of valuable trade secrets and possibly deter future acts of misappropriation—tools such as civil seizure, expedited discovery and the ability to bring multiple causes of action relating to the same acts of misappropriation. But, like any new law, much of the Act's effectiveness will ultimately depend on its application by the courts.

For inquiries related to this Tip of the Month, please contact Michael Battaglia at mbattaglia@mayerbrown.com, Eric Evans at eevans@mayerbrown.com or Kim Leffert at kleffert@mayerbrown.com.

To learn more about Mayer Brown's Electronic Discovery & Information Governance practice, contact Michael E. Lackey at mlackey@mayerbrown.com, Eric Evans at eevans@mayerbrown.com, Ethan Hastert at ehastert@mayerbrown.com, or Edmund Sautter at esautter@mayerbrown.com.

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