

FOCUS ON TRADE SECRETS

Federal Defend Trade Secrets Act: New Avenues of Relief

In our ever-innovative, competitive and connected economy, those seeking to protect trade secret information just added one more arrow to their quiver. On Wednesday, May 11, 2016, President Barack Obama (D) signed into law the Defend Trade Secrets Act (DTSA), which is implemented as a series of amendments to the Economic Espionage Act (EEA). The DTSA had vast bipartisan support and passed through each house of Congress handily.

While there are long-standing and well-established federal protections for certain intellectual property such as copyright, trademark and patents, there has been a hole for federal protection of trade secrets. Until now, companies seeking trade secret protections have been limited to relief granted under state law.

The DTSA creates a private cause of action for the misappropriation of trade secrets, supplementing the criminal charges that existed under the EEA for certain interstate and foreign theft charges. This represents a leap forward for deterring misappropriation as the resources of federal law enforcement are insufficient to apprehend all violators.

A few key provisions of the DTSA, both for companies protecting their trade secrets and those who will be defending against a claim for misappropriation:

- **Access to Federal Courts.** Now, so long as the trade secrets at issue are related to a product or service used in, or intended for use in, interstate or foreign commerce, the claim may be brought in federal court. This provides many advantages to a trade secret owner, including ease in obtaining records and witnesses through subpoenas, uniform rules and application of law, and judges who may have more expertise in complex or technical subject matters. Depending on the state court, however, it may be a slower alternative for a plaintiff seeking immediate injunctive relief with a temporary restraining order.
- **Statute of Limitations.** The DTSA provides for a five-year statute of limitations for misappropriation claims.

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- **No Preemption of State Law.** Most states have adopted a version of the Uniform Trade Secrets Act. The DTSA will not erode or replace state protections already in place or preempt existing state trade secret laws.
- **Whistleblower Protections.** The DTSA provides protection for whistleblowers who disclose alleged trade secrets in confidence to the government. Employers now must provide notice of this immunity to any employee in any employment agreement, non-disclosure agreement, restrictive covenant, or other contract governing the use of trade secrets or confidential information.
- **Limitations on Employment Restrictions.** Trade secret cases typically involve an injunction seeking to prevent a former employee from either using misappropriated information for the benefit of his or her new employer or taking a position with the new employer. Under the DTSA, an injunction cannot prevent a person from entering into an employment agreement. Further, restrictions on an individual's employment must be based on evidence that the stolen information will actually be used by the competitor and cannot be based merely on information the former employee knows.
- **Property Seizure.** In one of the more controversial provisions of the DTSA, a trade secret holder can petition to seize property of the accused, without notice to the target, to prevent dissemination of the information at issue. The seizure provision is only invoked under exceptional circumstances where a petitioner can show that the target would evade injunctive relief and destroy the property if given advance notice. A hearing will be held by the court within days of the seizure order, at which point the petitioner will have to prove facts and legal principles to support the order. Seized property remains in the custody of the court. Safeguards are in place to reduce the likelihood of abuse of the system, such as requiring the petitioner to post a bond and allowing for a claim by the target for damages based on wrongful seizure.
- **International Effect.** A U.S. corporation can be held liable for theft of trade secrets regardless of whether the misappropriation occurred in the United States or abroad.