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The Defend Trade Secrets Act of 2016

On April 27, 2016, Congress passed the “Defend Trade Secrets Act of 2016.” The Act (the DTSA) passed the House by a vote of 410 to 2. The bill passed the Senate April 4, 2016, by a vote of 87 to 0. Congress enacted the DTSA largely due to its concerns about Chinese espionage and online hacking by cyber-criminals.

The DTSA is expected to be signed into law promptly. Even before the Senate passed the Act, the Obama administration voiced strong support for it. The DTSA is intended to go into effect on the date of its enactment and applies to any misappropriation that occurs after that date.

General Background

The Act amends the Economic Espionage Act to create a civil cause of action for trade secret misappropriation. The federal statute previously provided only criminal penalties for trade secret misappropriation. Historically, trade secret misappropriation has been a matter of state law, commonly addressed under the Uniform Trade Secrets Act. The DTSA does not pre-empt these state laws. Instead, it leaves all state trade secret laws in place and creates the availability of an additional federal remedy.

As amended, 18 U.S.C. § 1836(b) will read: “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.” Misappropriation does not include reverse engineering, independent derivation, or any other lawful means of acquisition.

A federal court is authorized to grant injunctive relief to prevent actual or threatened misappropriation. The DTSA also provides for compensatory damages for either the actual loss caused by misappropriation of the trade secret and any unjust enrichment or a reasonable royalty for the use of the trade secret. Willful misappropriation can result in liquidated damages. Similar to the Uniform Trade Secrets Act, the DTSA includes an attorney fee provision that is limited to cases

involving bad faith or willful misappropriation. The Act contains a three year statute of limitations, although a continuing misappropriation is deemed a single claim of misappropriation.

The Act specifically limits the ability of a federal court to enjoin the person from entering an employment relationship or to enter injunctions that conflict with state laws prohibiting restraints on business. Moreover, any condition that a court places on employment “shall be based on evidence of threatened misappropriation and not merely on the information the person knows.”

Seizure Provision

In a departure from the Uniform Trade Secrets Act, the DTSA allows trade secret owners to seek, on an *ex parte* basis, an order to seize stolen trade secrets in the defendants’ possession. The seizure provision is intended to be used “only in extraordinary circumstances.”

The *ex parte* seizure provision contains a number of procedural safeguards to deter litigation abuse. Obtaining an *ex parte* civil seizure would require that a federal court make specific findings—based upon a sworn application—that: 1) a temporary injunction would be inadequate because the party being enjoined would evade, avoid, or otherwise not comply with the injunction; 2) an immediate and irreparable injury will occur if the seizure is not ordered; 3) the harm to the applicant of denying the application outweighs the harm to the person against whom the seizure would be ordered, as well as the harm to any third parties; 4) the applicant is likely to succeed in showing that the information is a trade secret and that the person against whom seizure would be ordered has misappropriated a trade secret by improper means or has conspired to use improper means to misappropriate the trade secret; and 5) the person whom the seizure would be ordered has possession of the trade secret.

The application must describe with reasonable particularity the matter to be seized and, to the extent possible, the location where it is to be seized. The movant must show that the person against whom seizure would be ordered, or other persons acting with that party, would destroy, move, hide, or otherwise make the trade secret matter inaccessible to the court if the moving party was to proceed with notice to the adverse party. The court also must find that the applicant has not publicized the seizure.

If the court enters a seizure order, it must protect the person against whom the order is directed from publicity and hold a hearing within seven days of entry of the order. The Act prohibits the seizure applicant (or its representatives) from playing any role in the seizure, or from being given access to the seized property until after the hearing. At the hearing, the applicant bears the burden of proof and must post a bond sufficient for payment of the damages that any person may be entitled to recover as a result of a wrongful or excessive seizure.

Whistleblower Provision

The DTSA includes a whistleblower provision, which immunizes an employee who discloses a trade secret in reporting a suspected violation of the law. The whistleblower provision also includes a notification provision that all employers should implement immediately: employers are required to notify all employees and contractors of their right to immunity, as set forth in the statute. Failure to provide such notice forfeits recovery of exemplary damages or attorneys’ fees for trade secret misappropriation.

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