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Defend Trade Secrets Act Adopted, Creating Private Federal Cause of Action for Trade Secret Misappropriation

On May 11, President Obama signed into law the Defend Trade Secrets Act of 2016 (the “DTSA”),¹ which amends the Economic Espionage Act (“EEA”), 18 U.S.C. § 1831 *et seq.*, a criminal statute that prohibits trade secret theft. The DTSA creates a new private cause of action for trade secret misappropriation under federal law, supplementing, but not preempting, existing state-law protections. In so doing, it creates federal-question jurisdiction, provides for limited extraterritorial application, and establishes a carefully circumscribed remedy allowing for *ex parte* relief.

Last month, the DTSA passed both houses of Congress with remarkable 87-0 approval in the Senate and 410-2 approval in the House. Citing studies placing the cost to the U.S. economy of trade secret theft at somewhere between \$300 and \$480 billion annually, a Senate Judiciary Committee Report noted that the DTSA would benefit trade secret owners by allowing them to bring misappropriation suits in federal court. Recognizing the danger that a trade secret may lose its value once disclosed, the Committee also emphasized that the DTSA’s *ex parte* seizure provision is an “important remedy” because it “enables a trade secret owner under limited, controlled conditions, to proactively contain a theft before it progresses and the trade secret is lost.”²

Key Provisions

The DTSA’s misappropriation cause of action is available to the owner of any trade secret “related to a product or service used in, or intended for use in, interstate or foreign commerce.” Some of its key provisions, many of which are similar to existing state law protections, are outlined below.

- **Definition of Misappropriation.** The DTSA’s definition of “misappropriation” is substantively identical to that found in the Uniform Trade Secrets Act (“UTSA”). The crux of the prohibited conduct is the acquisition, use or disclosure of a “trade secret” that was acquired by “improper means.” Improper means include theft, bribery, misrepresentation, breach of a duty to maintain secrecy, or espionage. The definition of “improper means” expressly *excludes* reverse engineering and other means of independently or lawfully discovering the trade secret, a limitation generally consistent with the UTSA.
- **Definition of a Trade Secret.** The DTSA is more expansive than the UTSA in enumerating the “forms and types” of information eligible for protection as trade secrets. Nevertheless, the legislative history expressly advises that the scope of eligible information is not intended to be

“meaningfully different” from state law.³ In addition, the DTSA conforms to the UTSA by requiring that a trade secret have “economic value . . . from not being generally known” or ascertainable to “another person who can obtain economic value from the disclosure or use of the information.” Importantly, the DTSA eliminates the EEA’s former “value” requirement that looked instead to whether the trade secret was known to the “public.” Finally, and again consistently with the UTSA, the DTSA requires that a trade secret owner have taken “reasonable measures” to maintain the secrecy of its trade secret.

- ***Injunctive Relief.*** Under the DTSA, a court may grant injunctive relief to prevent actual or threatened misappropriation, with certain limitations. An injunction may not prevent a person from entering an employment relationship (*i.e.*, it cannot amount to a simple non-compete injunction), and any conditions placed on future employment cannot be based “merely on the information the person knows.” According to the legislative history, this language rejects the “inevitable disclosure” doctrine recognized by some states, under which an employee can be enjoined from accepting employment that would necessarily result in the use or disclosure of information known to the employee. Because the DTSA does not preempt state law, however, the “inevitable disclosure” doctrine will remain available in states that recognize it.⁴ An injunction issued under the DTSA may also require that a party found liable for misappropriation take affirmative steps to protect a trade secret, and “in exceptional circumstances” where an injunction would be inequitable, require payment of a reasonable royalty to the trade secret owner.
- ***Damages.*** The DTSA authorizes an award of damages for “actual loss” and for unjust enrichment caused by misappropriation, *or* damages measured by the amount of a reasonable royalty in certain circumstances—a measure of damages that is not consistently recognized among the states. If the misappropriation is willful or malicious, the court may award exemplary damages up to double the foregoing amounts. As under the UTSA as adopted by many states, attorney’s fees may be awarded in certain instances of bad faith.
- ***Ex Parte Seizure.*** As a critical remedy unavailable under state law, the DTSA provides for civil seizure of property upon an *ex parte* application in “extraordinary” circumstances when “necessary to prevent the propagation or dissemination” of a trade secret. The court must find that it “clearly appears from specific facts” that a preliminary injunction or temporary restraining order would be inadequate to protect the trade secret, and that the requirements generally associated with those remedies—irreparable harm, balance of hardships, and likelihood of success—are met. The court must also find that the intended target “would destroy, move, [or] hide” the trade secret or property if notice were given.

Other Notable Provisions

There are several other notable provisions of the DTSA, including:

- ***Whistleblower Protection.*** The DTSA provides a significant exception from liability for disclosure of a trade secret to government officials or the court under certain enumerated conditions. These include a disclosure (1) made “in confidence” to a government official or attorney for the purpose of “reporting or investigating” a violation of law, or in a sealed court filing; or (2) by an employee-plaintiff to his or her attorney or in a sealed filing in a suit for retaliation for reporting a violation—in other words, a whistleblower retaliation action. Notably, the DTSA requires employers to provide notice of these immunities in “any contract or agreement . . . that governs the use of a trade secret or other confidential information,” and an employer who does not comply is ineligible for exemplary damages or attorney’s fees in a misappropriation action against the employee.
- ***Preservation of Confidentiality in Court Proceedings.*** The DTSA contains express language requiring district courts to protect the confidentiality of “information the owner asserts to be a trade secret” until the owner has had the opportunity to file a submission under seal describing the owner’s interest in protecting the information.

Implications

In sum, the DTSA grants trade secret owners a powerful new tool to enforce and protect their trade secret rights. Like owners of other forms of intellectual property (copyrights, trademarks, and patents), trade secret owners are now able to pursue claims for trade secret misappropriation in federal court (in circumstances where diversity jurisdiction is lacking). The new act also gives trade secret owners a potent, but limited, new remedy: the right to seek civil seizure of misappropriated trade secrets without providing advance notice to the defendant. Time will tell how broadly courts apply the seizure remedy and how DTSA case law compares with existing state law protection for trade secrets.

The text of the DTSA is available [here](#).

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This memorandum is not intended to provide legal advice, and no legal or business decision should be based on its content. Questions concerning issues addressed in this memorandum should be directed to:

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¹ PL 114-153, 130 Stat. 376 (2016).

² Report of the Committee on the Judiciary, S. Rep. 114-220, at 3 (March 7, 2016) (quotation marks omitted).

³ *Id.* at 10.

⁴ See *id.* at 8 & n.16 (comparing *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262 (7th Cir. 1995) (Illinois law), with *Whyte v. Schlage Lock Co.*, 125 Cal. Rptr. 2d 277 (Ct. App. 2002)).