MILLER CANFIELD

Congress Finally Agrees: Passes Federal Trade Secrets Act

April 28, 2016

After years of legislative fits and starts, the U.S. House of Representatives on April 27, 2016, passed a bill federalizing trade-secret law. President Obama is expected to sign the bill in short order. Titled the "Defend Trade Secrets Act of 2016," or "DTSA," the legislation amends the federal Economic Espionage Act, a criminal statute, and creates a federal private right of action for trade-secret misappropriation. It will bring the protection of trade secrets on par with the protections afforded patents, trademarks, and copyrights.

Congress's goal in passing the DTSA is to promote consistency in trade-secret law, which to date has been developed exclusively through state laws. While the state laws typically follow the Uniform Trade Secrets Act, there are still significant differences among the various laws and their applications. The federal law is expected to lead to more uniform decisions and generate more predictable results and certainty for businesses.

In addition to the new private federal cause of action, the DTSA's most notable deviation from most state laws is the availability of *ex parte* civil seizures where extraordinary circumstances are present. Under the act, trade-secret owners can, upon a clear showing of specific facts, obtain an *ex parte* order for the seizure of property "necessary to prevent the propagation or dissemination of the trade secret that is the subject of the action." Though the act does not define "extraordinary circumstances," it expressly provides that an *ex parte* order may only issue when, in addition to satisfying the usual requirements for an injunction, the trade-secret owner demonstrates that a temporary restraining order would be inadequate to serve the purpose of the *ex parte* order, the need for the *ex parte* order substantially outweighs the harm to any third parties that may be affected by its issuance, the person subject to the order has actual possession of the property to be seized, and the movant describes with particularity the items to be seized and their location. Once issued, the order may only be carried out by federal law enforcement or other authorities, and must be reviewed at a hearing at the earliest possible time.

As tempting as the availability of an *ex parte* order may seem to trade-secret owners, it does not come without risks. Aside from the demanding standard for obtaining an *ex parte* order, the DTSA includes an express cause of action for a person damaged by a wrongful or excessive seizure and allows for the collection of actual and punitive damages. Thus, trade-secret owners and their counsel must carefully assess the need for and scope of any *ex parte* seizures.

Other notable provisions of the DTSA include:

- **Familiar terminology.** Tracking the terms of the Uniform Trade Secrets Act, the DTSA uses definitions that should be familiar to practitioners and parties alike. The term "misappropriation," for instance, mirrors the definition used in 47 states and Washington D.C. The DTSA also amends the definition of "trade secrets" as presently defined in the Economic Espionage Act, 18 U.S.C. § 1839(3), to more closely follow the definition in the Uniform Trade Secrets Act.
- **Exemplary Damages.** In cases of willful and malicious misappropriation, the DTSA allows for doubling actual damages. This enticing remedy may not be available under state law, and it remains to be seen what precedent federal courts will look to for the assessment of what constitutes willful and malicious misappropriation.
- **Safe harbors for whistleblowers and employees.** The act provides immunity from civil and criminal liability to individuals who disclose trade secrets in confidence to the government in the course of reporting wrongdoing.

Also, with respect to employees, the DTSA is careful not to create broad non-compete restrictions where none existed, and requires that injunctions relating to future employment be narrow and based on "evidence of threatened misappropriation and not merely on the information a person knows." In addition, individuals cannot be held liable for disclosing trade secrets in an anti-retaliation lawsuit provided that the disclosure is made under seal and pursuant to an appropriate court order. Furthermore, the DTSA requires employers to provided notice to their employees of the immunities provided in the act or risk forfeiting the right to collect exemplary damages.

- **State laws are not preempted.** Notwithstanding the goal of harmonizing trade secret law, the DTSA does not preempt the trade-secret laws of the individual states. Thus trade secret owners will still able to assert state-law claims along with claims under the DTSA. This could potentially slow the march to uniformity at the federal level. The ability to assert concurrent claims also presents interesting strategic choices for both plaintiffs and defendants. For instance, where complete diversity is lacking, plaintiffs may choose to rely solely on state-law claims to take advantage of friendly state forums and laws without the threat of removal. And defendants facing an imminent lawsuit could be put to the choice of striking preemptively under the DTSA and the declaratory judgment act to guarantee a federal forum.

Finally, Congress has signaled that it may not be done legislating in the area of trade secrets. Congress made plain its belief that trade-secret theft is a domestic and foreign problem that harms companies and their employees. The DTSA requires the Under Secretary of Commerce for Intellectual Property and the Director of the Patent and Trademark Office to regularly report on domestic and international trade-secret protection and enforcement, and make recommendations on future legislative and executive actions that may help reduce the threat and impact of trade-secret theft, and facilitate cooperation between the private sector and government to safeguard trade secrets. Congress has also directed the Federal Judicial Center to develop within two years best practices for seizure and handling of electronically stored information.

There will surely be more to report as the DTSA is implemented and applied in the courts, and as future legislative and executive actions are recommended. Significantly, the DTSA comes at a time when patent protection has become more difficult in light of stricter standards for patent review under the America Invents Act and recent Supreme Court rulings. These developments may spur more litigation under the DTSA and lead companies to keep their valuable information secret rather than disclose it in a patent. Stay tuned for future updates and contact us if you would like to learn more.

A. Michael Palizzi
+1.313.496.7645
palizzi@millercanfield.com