

# CLIENT ALERT

May 12, 2016

## Defend Trade Secrets Act Creates Federal Trade Secret Cause of Action with Enhanced Seizure Remedies; Employers Should Give Notice to All Employees Regarding DTSA Whistleblower Immunity

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### SPEED READ

- The Defend Trade Secrets Act of 2016 (DTSA) creates a federal claim for trade secret misappropriation.
  - The DTSA enhances the procedural tools available to companies in the event of a theft or breach of trade secrets to seize property (probably most often computers or other data storage devices) that contains the misappropriated trade secrets.
  - Employers should begin giving employees, consultants and contractors notice of the DTSA's whistleblower immunity provision in all future agreements that "govern[] the use of trade secret or other confidential information" and update employee handbooks or policy documents to include the disclosure.
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On May 11, 2016, President Obama signed the Defend Trade Secrets Act of 2016, which immediately creates, for the first time ever, a federal civil cause of action for misappropriation of trade secrets. The DTSA adds a federal cause of action to existing state trade secrets laws, which are largely governed by statutes based on the Uniform Trade Secrets Act. The DTSA is effective immediately and creates a claim for misappropriation for which any act occurs on or after the date DTSA was enacted, May 11, 2016.

#### Enhanced Procedural Tools for Trade Secret Owners, Including *Ex Parte* Seizure

In addition to creating an open door to federal courts, the DTSA's *ex parte* seizure order provision is its most notable addition to existing protections available under state law.

The DTSA provides that a court may in "extraordinary circumstances" issue a civil order *ex parte*, without notice to the defendant, for the seizure of "property necessary to prevent the propagation or dissemination of the trade secret that is the subject of the action." In practice, the seizure provision is likely to be directed most often to computers and other data storage devices. Such an order, once issued, may be executed with the aid of federal marshals. This civil seizure provision adds a significant tool for companies that face trade secret theft.

The DTSA includes several protections to defendants in connection with the civil seizure process. These include requirements that any seizure order must be directed to the narrowest seizure of property possible to protect the identified trade secrets, and that any order include provisions to prevent the disclosure of any of the seized information to the plaintiff until after the defendant has an opportunity to be heard in court. The DTSA also provides that a hearing will be held no later than seven days after any *ex parte* seizure order is issued.

The DTSA also provides that a plaintiff seeking an *ex parte* seizure order provide security sufficient to compensate a defendant for "a wrongful or excessive seizure or wrongful or excessive attempted seizure."

Finally, the DTSA seeks to prevent the movant for *ex parte* seizure orders from creating adverse publicity for a defendant before the defendant has an opportunity to be heard. It provides that the "court shall take appropriate action to protect the person against whom [a seizure] order . . . is directed from publicity by or at the behest of the person obtaining the order, about such order and any seizure under such order."

#### Notice to Employees Regarding Whistleblower Immunity

The DTSA also amends 18 U.S.C. § 1833 to provide civil and criminal immunity to whistleblowers for confidential disclosure of trade secrets to government officials or attorneys "solely for the purpose of reporting or investigating a suspected violation of law."

The DTSA requires employers to provide notice of this immunity in "any contract or agreement with an employee that governs the use of a trade secret or other confidential information."

Employee is defined broadly to include any individual performing work as a contractor or consultant. A cross-reference to a policy document provided to the employee that sets forth the employer's reporting policy for suspected violations of law will suffice. An employer cannot recover exemplary damages or attorneys' fees awarded under the DTSA in any action against an employee lacking notice. The notice requirement is effective after enactment, so all relevant contracts entered into or updated on May 12, 2016 or later should include notice of the DTSA whistleblower immunity provision.

Notice of the whistleblower DTSA immunity provision should include a reference to the section of the DTSA that contains the relevant provision and a quotation from that section, namely:

"Pursuant to 18 U.S.C § 1833(b)(1): 'An individual shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that (A) is made (i) in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.'"

For any questions on the new law, please contact the authors.

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