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Labor and Employment Alert: Effective Now: Defense of Trade Secrets Act Makes it Easier to Protect Trade Secrets

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On May 11, 2016, President Obama signed the Defense of Trade Secrets Act (DTSA), which Congress passed overwhelmingly in a rare moment of bipartisanship. Until now, trade secrets have been exclusively protected by state law (unlike the federal protection afforded to patents, copyrights and trademarks). The DTSA gives a federal right of action for the misappropriation of trade secrets that are “related to a product or service used in, or intended for use in, interstate or foreign commerce.” The key provisions of the DTSA are outlined below.

The DTSA provides for actual damages, restitution, injunctive relief, exemplary damages of up to twice the amount of actual damages, and attorney’s fees. However, a court is prohibited from granting an injunction that would “prevent a person from entering into an employment relationship” (which prevents the injunction from being used as a backdoor non-compete). Moreover, an injunction cannot be based “merely on the information the person knows” (which is meant to preclude the injunction from being used for “inevitable disclosure” claims).

In addition to the civil remedies for trade secret misappropriation, the DTSA increases criminal penalties from \$5,000,000 to the greater of \$5,000,000 or three times the value of the stolen trade secrets, including the costs of reproducing them. Economic espionage and theft of trade secrets are now included within the list of “racketeering activities” under the federal [Racketeer Influenced and Corrupt Organizations Act](#) (RICO), which creates additional criminal liability and civil actions with treble damages for conspiracies to misappropriate trade secrets.

A unique provision of the DTSA allows plaintiffs to seek the ex parte seizure of misappropriated trade secrets to prevent their dissemination or propagation. This means the plaintiff may seek judicial relief without notifying the alleged wrongdoer beforehand. However, the DTSA permits ex parte seizures only in “extraordinary circumstances” and provides a number of limitations on their use. These limitations include, among others, a showing that a temporary restraining order or

preliminary injunction would be ineffective, that immediate and irreparable injury will occur without the seizure, that there is a likelihood of success in establishing the information is a trade secret and that it has been misappropriated by improper mean, and that the "applicant has not publicized the requested seizure."

The DTSA contains an **immunity provision** to protect individuals (i.e., whistleblowers) from criminal and civil liability for disclosing a trade secret if the disclosure is made confidentially to a government official, directly or indirectly, or to an attorney, for the purpose of reporting a violation of law. The DTSA requires employers to include notice of this immunity provision "in any contract or agreement with an employee that governs the use of a trade secret or other confidential information." "Employee" includes "any individual performing work as a contractor or consultant for an employer." An employer may comply with the notice requirement by providing a cross-reference to a policy document that sets forth the employer's reporting policy for a suspected violation of law. An employer that fails to provide such notice to its employees may not recover exemplary damages or attorney's fees under the DTSA.

The statute of limitations under the DTSA is three years. The DTSA is not retroactive and applies only to contracts entered into on and after May 11, 2016.

Finally, the DTSA does not preempt state law. This means that a plaintiff will need to weigh the advantages of bringing a DTSA claim with state law claims in federal court or remaining in state court and proceeding without the remedies the DTSA provides. It also remains to be seen how the federal courts will interpret the DTSA's provisions, especially the ex parte seizure remedy.

Contact your Vorys lawyer if you have questions about the new DTSA or best practices for protecting your trade secrets.