



New Federal Law Gives Businesses More Protection For Trade Secret Information

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Trade secrets include any information, processes, methods – from customer lists to business plans to schematics or software code – that are both secret and that add value to the business. Trade secrets afford intellectual property protection to commercially sensitive information. Such protection is critically important, especially in today’s information-intensive and mobile national economy. The Defend Trade Secrets Act of 2016 (the “DTSA”), signed into law May 11, 2016, now permits businesses to take more decisive and effective action to deal with actual or threatened theft or disclosure of their valuable trade secrets.

Six key aspects of this new law as they relate to your business are:

1. **The DTSA allows businesses to file trade secret claims in federal court.** The DTSA applies to any misappropriation for which any act occurs on or after May 11, 2016. Prior to May 11th, the only federal statutes applicable to trade secret theft were criminal. Because of limited government resources, very few incidents were reported and resulted in prosecution. Now, however, a DTSA claim will be widely available and with it, the advantages of litigating in federal court, such as:
 - **Uniformity.** Prior to the DTSA, claims for trade secret misappropriation had to be asserted under various state laws which meant dealing with variations and uncertainties across multiple jurisdictions.
 - **Experience.** The DTSA will add a degree of judicial expertise, because federal courts are typically more experienced in evaluating complex technology disputes.
 - **Efficiency.** Claims under the DTSA will be subject to earlier and more rigorous disclosure requirements and the availability of nationwide discovery, both of which should provide marked advantages for parties dealing with more complicated trade secrets disputes.

2. **The DTSA allows court-ordered seizure of property.** In extraordinary cases, the DTSA explicitly empowers a court to issue an order providing for the seizure of property. And the court can do so *ex parte*, meaning without notice to the defendant. This is powerful, as it authorizes United States marshals to enter defendant’s facilities unannounced and confiscate property subject to the order. It clearly applies to products – for example, software containing stolen code – that incorporate the trade secret, but the statute has potentially even wider sweep. It permits, for example, impoundment of computers and other equipment being used to further distribute the stolen technology.

3. **The DTSA allows wide-ranging injunctions and damages against defendants.** In an action filed under the DTSA, a court can issue an injunction – a court order directing compliance and enforceable through various sanctions – to prevent not only actual but threatened misappropriation. The DTSA also allows three forms of damages. A business can seek its damages for:
 - actual losses (for example, the loss of value associated with disclosure of a secret or lost profits because of a competitor’s use of the secret);
 - “unjust enrichment” resulting from the misappropriation (for example, sales a

- competitor would not otherwise have made without the misappropriated secrets);
- or, in lieu of either other method, a “reasonable royalty” that the court imposes on the defendant for the unauthorized disclosure.

Where a defendant has acted “willfully and maliciously,” a court can award punitive damages. In that circumstance, or where either party takes a position in bad faith, a court can award reasonable attorneys’ fees to the prevailing party. Importantly, the DTSA applies to conduct outside of the United States by any citizen or permanent resident or where at least one act as part of the larger offense was committed in the United States.

4. The DTSA contains important protections for defendants. The DTSA does contain limitations on the timing of orders and protects against seizures based on claims that later turn out to lack merit:

- A DTSA plaintiff will need to post an appropriate bond to account for the possibility of a wrongful application.
- The court must conduct an early hearing (within seven days) on the appropriateness of the order, and to avoid any unnecessary damage to a defendant’s reputation, the court is also authorized to take appropriate measures to protect the subject of the order from bad publicity.
- The DTSA also provides for secure storage and other measures to preserve confidentiality.
- If necessary, the court can appoint a third-party or “special master” to assist the parties in segregating and returning any non-trade secret information that might have been seized.

Where there is “wrongful or excessive” seizure, the DTSA allows damages for lost profits, cost of materials, loss of good will and punitive damages. For a claim of misappropriation that is made in bad faith, the court may award a defendant reasonable attorneys’ fees.

5. The DTSA adds protections for employees and whistleblowers related to trade secrets, and a new requirement for employment agreements. The DTSA provides immunity from liability for certain disclosures of trade secrets made in confidence to a government official or attorney or disclosures made in certain court filings. Further, an employee filing a lawsuit based on alleged retaliatory action by an employer may use, with certain limitations, trade secret information in a court proceeding.

A very substantial related change concerns the content of employment agreements. For every contract or contract update that governs use of a trade secret or other confidential information by an employee (defined to include contractors and consultants), an employer is now required to provide notice of the immunity discussed above. This notice can refer to or cross-reference a policy that sets out the company’s policy for reporting violations of law, but if the employer does not provide the notice, it forfeits the ability to claim punitive damages or attorneys’ fees in an action for misappropriation against the employee. To best protect your business, you should consult your attorney and take immediate action to implement this requirement.

6. The DTSA updates and strengthens the federal criminal provisions pertaining to trade secret theft. The DTSA also enhances the criminal provisions applicable to trade secret misappropriation. The maximum damages amount is now \$5,000,000 or up to three times the value of the stolen trade secret to the organization, including “expenses for research and design or other costs of reproducing the trade secret that the [misappropriating] organization has thereby avoided.” The new provisions add additional protections against any potential court-related disclosure of sensitive information. Finally, economic espionage and criminal theft of trade secrets are now included as predicate acts for purposes of alleging a claim under the federal Racketeer Influenced and Corrupt Organizations Act (RICO); this inclusion also has substantial implications for private civil litigation based on the RICO statute.

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