KIRKLAND ALERT

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Federal Trade Secrets Bill Poised to Become Law

A long-awaited federal trade secrets bill may soon become law. The Defend Trade Secrets Act ("DTSA") has passed the House and Senate, and is now awaiting the approval of President Obama, who has already signaled that he would support the bill. Here is what you need to know about the DTSA.

The DTSA will give trade secret plaintiffs access to federal courts so long as the trade secret is "related" to products or services "used in, or intended for use in, interstate or foreign commerce."

Background

Variance in state trade secret law has created uncertainties for companies operating interstate. The Uniform Trade Secrets Act ("UTSA") has attempted to harmonize the hodgepodge of state laws by offering a model for states to enact. Most states have adopted some version of the UTSA, with only New York and Massachusetts maintaining their respective common law. Unsurprisingly, the law differs between UTSA and non-UTSA states. Even among UTSA states, however, both the statutes and jurisprudence can differ. Thus, whether information constitutes a trade secret, or certain conduct is actionable, or certain remedies are available, can vary by state.

The DTSA will create some consistency across the states by amending the Economic Espionage Act to create a federal cause of action that resembles the UTSA, with key differences.

Companies can elect to bring a state claim, a federal claim, or both, and must be aware of the substantive and procedural differences between the DTSA and the relevant state(s) trade secret law(s).

A Federal Cause of Action

The DTSA will give trade secret plaintiffs access to federal courts so long as the trade secret is "related" to products or services "used in, or intended for use in, interstate or foreign commerce." But the DTSA preserves state causes of action, thereby creating a uniform body of *federal* law that co-exists with varied state laws. Companies can elect to bring a state claim, a federal claim, or both, and must be aware of the substantive and procedural differences between the DTSA and the relevant state(s) trade secret law(s).

Substantive Elements

The DTSA protects "all forms and types of financial, business, scientific, technical, economic, or engineering information."

Trade Secret. The DTSA protects "all forms and types of financial, business, scientific, technical, economic, or engineering information," and includes a long list of examples. This broad formulation sweeps in most if not all information covered at the state level. Companies should evaluate their corporate trade secret programs and policies to take advantage of the potentially expanded protection.

The DTSA reflects the UTSA by further requiring that the trade secret be subject to reasonable measures to maintain secrecy, and derive value from not being generally known or readily ascertainable. This language differs from some state laws, which incorporate only some of these requirements or entirely different ones. For example,

the DTSA's definition is narrower than the definitions in California, Colorado, Illinois, and Oregon where the statutes do not exclude readily ascertainable information.

The DTSA definition differs from the common law definition. In New York and Massachusetts, a trade secret must be "continuously used" in the operation of a business, which often excludes "ephemeral" financial or business information. The DTSA has no such requirement, and may embrace information excluded in those states.

The DTSA's most notable innovation is the ex parte seizure provision, which was hotly debated.

Misappropriation. The DTSA defines "misappropriation" the same way as the UTSA, making actionable the acquisition, disclosure, and use of trade secrets, and in certain situations, imposing knowledge requirements. Common law states, and many state statutes, use different definitions of misappropriation that embrace some or all of these aspects to varying degrees.

Improper Means. The DTSA's definition of "improper means" resembles the UTSA's, listing "theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means." States have various definitions. For example, Connecticut's statute provides that searching another's trash is improper means; but other states have held that throwing documents in the trash can defeat a claim of secrecy. The DTSA also creates exceptions for "reverse engineering or independent derivation," whereas these exceptions are incorporated into some but not all state statutes, and appear in the UTSA only in the comments.

Remedies

Ex Parte Seizure. The DTSA's most notable innovation is the *ex parte* seizure provision, which was hotly debated. The bill now provides that such seizure is available only in "extraordinary circumstances." The court must find, among other things, that (1) other equitable relief such as a TRO is inadequate; (2) immediate and irreparable injury would result; (3) the applicant is likely to succeed on the merits; (4) the accused actually possesses the trade secret and property to be seized (which must be described with "reasonable particularity"); (5) the accused would "destroy, move, hide, or otherwise make the [property] inaccessible to the court"; and (6) the applicant has not publicized the requested seizure.

The DTSA rejects a particular species of "threatened misappropriation" known as "inevitable disclosure," at least in its strongest form.

With respect to any order that may issue, the DTSA requires the court to, among other things, (1) provide "the narrowest" order that "minimizes any interruption" of legitimate activities; (2) set a hearing as early as possible, and not later than 7 days after the order; (3) protect the accused from publicity with respect to the order; and (4) protect the seized property from the applicant and others. The only entities that can access the seized property are federal law enforcement, with assistance from state authorities and an independent technical expert if necessary. After seizure, the court may appoint a special master who will confidentially oversee the seized property.

Threatened Misappropriation. The DTSA, like the UTSA, permits plaintiffs to enjoin "threatened misappropriation," but the DTSA rejects a particular species known as "inevitable disclosure," at least in its strongest form. Critics worry that inevitable disclosure may be used to enjoin individuals from taking new jobs based solely on what they learned from their former employer, rather than based on evidence that misappropria-

tion is a threat. This concern is particularly acute in states like California where there is a strong public policy against restrictive covenants, and an attendant aversion to judicially imposing them *ex post*. Under the DTSA, injunctions cannot altogether prevent employment, and may only place conditions on employment to the extent they are "based on evidence of threatened misappropriation and not merely on the information the person knows." For added measure, DTSA orders cannot "otherwise conflict with an applicable State law prohibiting restraints on the practice of a lawful profession, trade, or business."

The DTSA immunizes trade secret disclosures made in confidence to government officials or as part of a lawsuit filed under seal.

Monetary Remedies. The DTSA permits recovery of actual financial losses and unjust enrichment, as well as royalty injunctions in certain circumstances, and double damages are available for willful and malicious misappropriation. Like the UTSA and some state statutes, reasonable attorneys' fees are recoverable for bad faith conduct, and willful misappropriation.

Other Considerations

Whistleblower Protection & Notice Requirements. Non-disclosure and confidentiality agreements are a fixture in trade secret law, and the DTSA incorporates a safe harbor to avoid chilling whistleblowing with the threat of breach of contract or trade secret liability. The DTSA immunizes trade secret disclosures made in confidence to government officials or as part of a lawsuit filed under seal. Notably, the DTSA's immunity applies to federal *and state* claims. The DTSA also requires companies to give notice of the safe harbor in any employee or contractor agreement that governs use of trade secrets or confidential information, or by cross-reference to a separate policy document. Failure to comply prevents recovery of attorneys' fees and enhanced damages.

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Effective Date & Statute of Limitations. The DTSA is expressly prospective only. Once signed into law, the DTSA will apply to acts occurring on or after the enactment date. The DTSA, like the UTSA, has a three-year limitations period that accrues from the date the plaintiff discovered or should have discovered the misappropriation. States have enacted periods ranging from two to six years. Thus, a claim may be time-barred at the state level, but not the federal level, and vice versa.

If you have any questions about the matters addressed in this *Kirkland Alert*, please contact the following Kirkland authors or your regular Kirkland contact.

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