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Intellectual Property

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Trade Secrets Now Federally Protected Intellectual Property

Some of the most valuable intellectual property that companies own — their trade secrets — now enjoy federal protection, alongside patents, trademarks and copyrights. Designed to strengthen and supplement the protection of trade secrets under state law, the Defend Trade Secrets Act creates a federal cause of action for trade secret theft and provides remedies to address misappropriation and to prevent the improper dissemination of trade secrets. The most significant trade secret reform in nearly two decades, the DTSA received overwhelming bipartisan support in Congress (87-0 in the Senate and 410-2 in the House). President Barack Obama signed the DTSA into law May 11, 2016.

Prior to the enactment of the DTSA, trade secrets (defined generally as information holding commercial value that is closely guarded) were protected only under state law, which varies from state to state. The DTSA governs all kinds of valuable information — including business and manufacturing methods, software programs, designs, chemical formulas, client lists, and sales techniques — that companies want to keep from their competitors. Trade secret issues can arise in many contexts, from employee hiring and firing to business contracts containing nondisclosure clauses to employee discussions of a company's business with a business partner, the public, or friends and family.

The DTSA standardizes protections and remedies, and gives businesses a new and powerful option to bring suits in federal court for the misappropriation of trade secrets. Remedies for misappropriation include injunctive relief for actual or threatened misappropriation, actual damages and unjust enrichment, as well as payment of a reasonable royalty in exceptional circumstances where injunctive relief is deemed inequitable. The law also provides for exemplary damages in an amount not more than twice the amount of damages otherwise awarded for willful and malicious misappropriation.

One of the most powerful remedies provided by the DTSA is the ability of trade secret owners to seek an ex parte order to seize allegedly stolen trade secrets. To obtain a civil seizure order, the trade secret holder must show that the information at issue is a trade secret, was misappropriated (defined as the acquisition, disclosure or use of a trade secret by improper means), and has suffered or will suffer irreparable injury in the absence of a seizure order.

The DTSA also contains provisions affording immunity for both criminal and civil liability under both federal and state laws for disclosing trade secrets in whistleblower scenarios, and requires employers to notify employees

and contractors of this immunity in agreements with those employees and contractors that govern the use of trade secrets or other confidential information — presumably any employment contract or independent contractor agreement containing nondisclosure provisions, or any stand-alone nondisclosure agreement. The requirement applies to new agreements after the date of the enactment of the statute (or agreements revised or updated after that date in the course of the relationship between the employer and employee or contractor). Existing agreements don't need to be revised. The DTSA allows employers to comply with these provisions by providing employees and others with a cross-reference to a policy document detailing employer reporting policies for suspected violations of the law. Employers that fail to provide the required language in their agreements forgo the ability to collect damages under the exemplary damages provision or to recover attorneys' fees in cases of willful and malicious misappropriation.

The ink is barely dry on the new law and at least one suit alleging violation of the DTSA has already been filed. In *M.C. Dean v. City of Miami Beach*, the plaintiff claims that its certified payrolls are trade secrets that have been misappropriated by a local union. The complaint is supported by an affidavit from an economist who is allegedly an expert in the valuation of intangible assets, and who opines that the payrolls constitute trade secrets because they provide real economic value to unions and competitor employers. The case includes claims under both the DTSA and Florida's state trade secret law, and seeks many of the remedies available under the DTSA.

While the DTSA has been hailed by most as a major positive development in intellectual property law, some commentators have taken issue with the fact that it does not pre-empt state law. Leaving the patchwork scheme of individual state trade secret laws in place and overlaying it with a federal scheme could make the process of adjudicating trade secret disputes more complex and costly, they argue.

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