

How the New Trade Secrets Law May Affect You

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A week ago, on May 11, 2016, the President signed into law the new federal “Defend Trade Secrets Act of 2016.” It arms with substantial new weaponry those whose trade secrets have been taken. What has been less heralded, but might just affect you more directly, are the new requirements imposed upon companies entering into confidentiality agreements and NDAs.

Highlights of the law are:

- A new, federal private cause of action that can be brought in federal court;
- Broad and strong remedies, including early seizure of computers and materials; and
- Whistle-blower protections requiring new contract language in NDAs and confidentiality agreements with contractors, consultants and employees

New Lawsuits and a New Federal Claim

Before the enactment of this law, private parties had no federal civil cause of action to assert for trade secret misappropriation. Misappropriation claims were instead governed by state laws, as many states (including North Carolina) had enacted various forms of the Uniform Trade Secrets Act. *See, e.g.,* N.C. Gen. Stat. § 66-152 *et seq.* Trade secret cases were often litigated in state courts, including North Carolina’s Business Court, unless there was another basis for federal court jurisdiction, such as diversity of state citizenship or a copyright claim.

Now, codified among criminal statutes in Title 18, the new federal statute provides that an “owner of a trade secret that is misappropriated” may bring a federal civil action “if the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce.” 18 U.S.C. § 1836(b). The law is effective for any act occurring on or after May 11, 2016.

The statute changes the definition of a trade secret from the prior criminal law definition to wording more like that used in many states’ versions of the Uniform Trade Secrets Act. Under the new law, a “trade secret” means (change shown below):

all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically,

graphically, photographically, or in writing if--

- (A) the owner thereof has taken reasonable measures to keep such information secret; and
- (B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, the public another person who can obtain economic value from the disclosure or use of the information.

18 U.S.C. § 1839(3). *Compare* N.C. Gen. Stat. § 66-152(3) (language still varies).

According to the U.S. Senate and House reports, two appellate circuits had previously noted this important difference in the language between the prior criminal law and the Uniform Trade Secrets Act. The reports assert that the Congressional Committees did not intend the new definition to be meaningfully different from the definition in the Uniform Trade Secrets Act. Thus, to establish a trade secret under the new law, among other requirements, the higher standard must be met – namely, that the information is neither generally known to nor readily ascertainable through proper means by another person who can obtain economic value from its disclosure or use, as compared to the prior lower standard concerning the public.

“Misappropriation” also now has a definition that includes the acquisition of a trade secret, with actual or constructive knowledge by improper means. Importantly, while “improper means” includes theft, breach of a duty to maintain secrecy and espionage, it “does not include reverse engineering, independent derivation, or any other lawful means of acquisition.” 18 U.S.C. § 1839(6).

The statute imposes a three (3) year statute of limitations on claims running from discovery or when a claim should have been discovered by the exercise of reasonable diligence.

18 U.S.C. § 1839(3). *Compare* N.C. Gen. Stat. § 66-152(3) (language still varies).

Remedies and Civil Seizure

The law allows for several types of remedies. For example, injunctive relief may be granted. Interestingly, the statute asserts that although a person may be prevented “from entering into an employment relationship, . . . conditions placed on such employment shall be based on evidence of threatened misappropriation and not merely on the information the person knows.” 18 U.S.C. 1836 (b)(3). Damages may be awarded based upon actual loss, unjust enrichment, or a reasonable royalty. If the misappropriation is willful and malicious, damages may be increased up to two (2) times the base amount. And, reasonable attorney’s fees may be awarded to a prevailing party if the claim was made in bad faith or the misappropriation was willful and malicious, among other reasons.

The statute also includes a lengthy civil seizure provision allowing the court, upon a proper showing, to enter an ex parte seizure of property. If the court finds that a regular injunction or TRO would be inadequate, that immediate and irreparable injury will occur absent a seizure, that the balance of harms favor seizure, and that the applicant shows a likelihood of success on various elements of their claim, then a seizure order can be issued. In the seizure, the allegedly improper materials can be taken and held for up to 7 days before a further hearing. 18 U.S.C. § 1836(b)(2). This affords trade secret owners a substantial weapon to try to quarantine and take computers, files or other materials carrying the secrets, especially if the materials have not already left the country or been spread across the Internet.

Whistle-blower Protections

The statute imposes a variety of protections to employees and contractors who report suspected violations of the law. It provides immunity to a whistle-blower who discloses a trade secret in confidence “to a Federal, State or local government official, either directly or indirectly, or to an attorney . . . solely for the purpose of reporting or investigating a suspected violation of law.” 18 U.S.C. § 1833(b)(1). It also protects the employee’s ability to disclose the trade secret in confidence and under seal in an anti-retaliation lawsuit arising from the reporting of a suspected violation of law. Further, starting with contracts and contract updates after May 11, 2016, the “employer shall provide notice of the immunity . . . in any contract or agreement with an employee that governs the use of a trade secret or other confidential information.” If the employer does not comply with this notice requirement, the employer may not recover “exemplary damages or attorney fees” against the employee due to the employee’s disclosure of the trade secret. An “employee” is defined to include “any individual performing work as a contractor or consultant for an employer.” 18 U.S.C. 1833(b)(3).

Attorneys at Brooks, Pierce, McLendon, Humphrey & Leonard, L.L.P. frequently counsel clients concerning all manner of trade secret matters. Our attorneys advise companies concerning confidentiality protections, NDAs, and obligations to employees. Our attorneys handle trade secret litigation, including high profile and “bet-the-company” cases, both on behalf of those whose secrets may have been taken as well as those accused of misappropriation. And our white-collar criminal defense group is one of the few groups in this region to have handled multiple trade secrets prosecutions. For more information, please contact any of the attorneys linked below.

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