Defend Trade Secrets Act to Provide Employers with Uniform Protection and Access to Federal Courts

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A company's most valuable assets are its employees and its trade secrets that make them stand out in the marketplace. Trade secrets can often be the keys to the kingdom. However, trade secrets are difficult to protect and once disclosed they can lose their protection forever. The reality, however, is that companies must disclose their trade secrets to employees in order for them to perform their jobs and then trust that those same employees will protect the secrets even after the employment relationship ends. Trust can be a challenge. Employees can post them on social media, copy them onto a thumb drive, forward them through a file hosting service on the internet, or simply walk out of the office with hard copies. Until recently, companies had to take action in state courts under state laws that can vary significantly from state to state.

On April 27, the U.S. House of Representatives passed the Hatch-Coons Defend Trade Secrets Act (DTSA) by an overwhelmingly bipartisan vote of 410-2 after the Senate had unanimously passed the law earlier in April. The DTSA defines a "trade secret" similarly to state laws – information that derives independent economic value from not being generally known or readily ascertainable where the owner has taken reasonable measures to maintain its secrecy. The law takes effect immediately when signed by President Obama – which could happen any day – and will apply to any misappropriation that occurs after that date.

Private Civil Cause of Action. The DTSA provides a federal civil claim for victims of trade secret misappropriation. Until now, companies have had to protect their trade secrets in state courts under varying state laws. Despite similar statutory language, state courts often interpreted that language very differently from each other, creating uncertainty about the ability to protect trade secrets across state lines.

Under the DTSA, employers will have access to federal courts for protecting their trade secrets. The benefits of federal court include nation-wide enforcement mechanisms such as the ability to subpoena out-of-state parties and the ability to reach property across state lines. Federal courts should also provide, at least in theory, a more uniform interpretation of the DTSA. In other words, a Washington employer should be better able to predict its ability to protect its trade secrets in other states under the DTSA than under state law alone.

Seizure. In a significant departure from state law, the DTSA gives companies the ability to ask the federal court to seize its trade secrets that are in the possession of another. Moreover, the federal court may seize the trade secrets even without advance notice to the alleged misappropriator. This is an incredibly powerful tool for recovering trade secrets before they have been disclosed. Like most ex parte orders, the DTSA states that this remedy should be available only in extraordinary circumstances where advance notice would allow a person to evade the requirements of the DTSA. Though powerful, this tool can create new significant risks. Where a company wrongfully obtains a seizure order, it is liable for any damages caused by execution of that order.

Injunctive Relief. Like state laws, the DTSA allows employers to seek injunctive relief to prevent the actual or threatened misappropriation of a trade secret. Under the DTSA, however, the injunction may not prevent an employee from working for a competitor, and any conditions placed on future employment must "be based on evidence of threatened misappropriation and not merely on the information the person knows." This language makes clear that the court may not order injunctive

relief based on the "inevitable disclosure" doctrine – which provides that an employee may not work for a competitor if the employee would inevitably disclose the trade secret in the course of that employment, even innocently. The inevitable disclosure doctrine has not been adopted in all states, and Washington has not yet decided whether to adopt the doctrine. The best way to prevent a former employee from working for a competitor is still a non-compete agreement.

Damages. Under the DTSA, a plaintiff may recover damages for actual loss and for any unjust enrichment caused by the misappropriation if not included in the actual loss. In addition, a plaintiff may recover exemplary damages and attorney's fees where the misappropriation is willful and malicious, just like under Washington law. The DTSA also provides the option of a reasonable royalty in lieu of the damages described above. In contrast, the Washington Uniform Trade Secrets Act provides for a royalty only in limited circumstances.

Whistleblower Protection. The DTSA, like virtually all employment-related statutes, protects whistleblowers. An individual may not be liable for trade secret misappropriation for disclosing a trade secret to a federal, state, or local government official or to an attorney for the sole purpose of reporting or investigating a suspected violation of law. Though most of the DTSA is welcome news for employers, this whistleblower protection could lead to even more retaliation claims by employees. Further, the whistleblower protection protects employees from both DTSA and state trade-secret laws.

A new twist is that companies must give employees notice of this whistleblower protection in any contract or agreement governing the use of trade secrets. It is sufficient to provide a cross-reference to an employment policy that provides this notice. If a company fails to give the required notice, it will not be entitled to exemplary damages or attorney's fees in an enforcement action, though it will still be entitled to damages for its actual loss and any unjust enrichment to the misappropriator.

Impact on Employers. The DTSA does not preempt state trade secret law and employers may bring claims under both the DTSA and applicable state laws. As a result, companies should consult with their attorneys early in the process to determine whether proceeding under state, federal, or both provides the best advantages for the employer. In the meantime, the passage of the DTSA is an opportunity for companies to inventory their intellectual property and ensure that reasonable measures are being taken to protect all trade secrets. Employers should also ensure that all employee agreements that govern use of trade secrets include the required whistleblower notice.