

EMPLOYMENT LAW COMMENTARY

Volume 28, Issue 6

June 2016

San Francisco

Lloyd W. Aubry, Jr., Editor

Karen J. Kubin

Linda E. Shostak

Eric A. Tate

Palo Alto

Christine E. Lyon

Tom E. Wilson

Los Angeles

Tritia Murata

Timothy F. Ryan

Janie F. Schulman

New York

Miriam H. Wugmeister

Berlin

Hanno Timmer

Beijing

Paul D. McKenzie

Hong Kong

Stephen Birkett

Tokyo

Toshihiro So

Sidebar:

In Memoriam

Daniel P. Westman



THE DEFEND TRADE SECRETS ACT – WHAT EMPLOYERS NEED TO KNOW RIGHT NOW

By [John A. Trocki III](#)

Trade secrets are a critical component of the intellectual property of a company, either standing alone or as a complement to a company's patent portfolio. Historically, despite the fact that other forms of intellectual property, such as patents, copyrights, or trademarks, were protected by federal law, state law provided the primary protection for trade secrets. This is no longer the case.

In Congressional reports discussing the need for federal protection of trade secrets, "the Commission on the Theft of American Intellectual Property estimated that annual losses to the American economy caused by trade secret theft are over \$300 billion, comparable to the current annual level of U.S. exports to Asia."¹ In an attempt to help U.S. companies protect these critical assets, on May 11, 2016, President Obama signed into the law the Defend Trade Secrets Act (DTSA).²

Attorney Advertising

**MORRISON
FOERSTER**

continued on page 2

This new framework includes provisions critical to the operation of any U.S. business that uses agreements or contracts that include provisions to maintain the confidentiality of a company's proprietary information. Through this article, we do not attempt to discuss every aspect of the new law, instead focusing on the aspects of the DTSA that may affect the day-to-day operation of your business and the agreements commonly used in that business.

BRIEF BACKGROUND

The DTSA is an amendment to the Economic Espionage Act of 1996.³ Through the DTSA, federal law now provides access to federal courts to protect all major forms of intellectual property: patents, trademarks, copyrights, and now trade secrets. The DTSA was modeled after the Uniform Trade Secrets Act (UTSA), the trade secret framework under state law, which has been adopted in 47 states.

HOW WILL THE DTSA AFFECT MY BUSINESS?

One important aspect of the DTSA is the express protection it provides to whistleblowers, and the DTSA **requires that all employers make their employees aware of that protection in any agreement or policy that relates to confidentiality.**⁴

The DTSA provides immunity to employees from liability for confidential disclosures of a trade secret to government officials (*e.g.*, whistleblowing) or in a court filing. Employees cannot be held criminally or civilly liable under any federal or state trade secret laws for confidential disclosures made to federal, state, or local government officials, or to an attorney, that are “solely for the purpose of reporting or investigating a suspected violation of law.”⁵ The Act also protects employees from disclosures made in court filings, as long as they are made “under seal” (*e.g.*, they are not accessible to the public, only to court personnel and the attorneys involved in the case).⁶

The DTSA requires employers to provide notice of this immunity to employees, “in any contract or agreement with an employee⁷ that governs the use of a trade secret or other confidential information.”⁸ Thus, under the DTSA, all agreements with employees that include provisions regarding confidential or proprietary information, such as confidentiality agreements, non-disclosure agreements, or proprietary information and invention agreements (“PIAs”), must include

In Memoriam Daniel P. Westman June 6, 1956-May 22, 2016

Our partner, colleague, and friend Dan Westman passed away on May 22, 2016, after a three-year battle with an extremely rare form of cancer. Dan was an expert on labor and employment law, with a focus, among many things, on trade secrets and whistleblower retaliation. He was an editor of the treatise James Pooley and Daniel P. Westman, *Trade Secrets* (Law Journal Press 2015), and one of the original authors of *Whistleblowing – The Law of Retaliatory Discharge* (3d ed., Bloomberg BNA, 2015).

Dan joined Morrison & Foerster as a partner in our Northern Virginia office in 2005 after an already distinguished career as a law clerk to the Hon. Barbara B. Crabb, U.S. District Court, Western District of Wisconsin, and as an employment and labor attorney in California and Virginia. At MoFo, the firm recognized Dan's intellect, skill, good judgment, integrity, kindness, and calm, discreet Norwegian manner; he rose quickly to managing partner of the Northern Virginia office and chair of the Employment and Labor Group. Even during his illness, Dan was almost always available by phone to offer his wisdom and guidance on case strategy and the law.

Dan was a true Renaissance man who enjoyed the outdoors and loved history and sports (especially when Stanford was playing). He was an avid reader, keen bridge player, athlete, ruthlessly competitive Scrabble player, and self-taught guitarist. Most important, Dan was a loving husband to Alison and father to Peter, Eric, and Alex.

Everyone at Morrison & Foerster, especially the Employment and Labor Group and his colleagues in Northern Virginia, will miss him immensely.

notice of the DTSA's immunity provision in those agreements.

Employers can also comply with this requirement by including a reference to any corporate policy regarding confidential or proprietary information, which should already contain an exception for disclosure to government officials. The DTSA allows employers to provide the required notice through a "cross-reference to a policy document provided to the employee that sets forth the employer's reporting policy for a suspected violation of law."⁹

Some sample language can be added to existing agreements or corporate policies to comply with the DTSA:

EXEMPLAR 1 (SHORT FORMAT)

Employee acknowledges that he or she has been advised of the immunity from liability under the Defend Trade Secrets Act, and cannot be held criminally or civilly liable under federal or state trade secret law for the disclosure of trade secrets made in confidence to government officials or to an attorney, solely for the purpose of reporting or investigating a suspected violation of law, or included in a complaint or other document in legal proceedings, provided that any such filing is made under seal and protected from public disclosure.

EXEMPLAR 2 (LONG FORMAT)

18 U.S.C. § 1833(b) states:

"An individual shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that—(A) is made—(i) in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal."

Accordingly, the Parties to this Agreement have the right to disclose in confidence trade secrets to Federal, State, and local government officials, or to an attorney, for the sole purpose of reporting or investigating a suspected violation of law. The Parties also have the

right to disclose trade secrets in a document filed in a lawsuit or other proceeding, but only if the filing is made under seal and protected from public disclosure. Nothing in this Agreement is intended to conflict with 18 U.S.C. § 1833(b) or create liability for disclosures of trade secrets that are expressly allowed by 18 U.S.C. § 1833(b).¹⁰

Failure to comply with this notice requirement prevents employers from receiving exemplary damages or attorney fees in actions brought against employees for misappropriation of trade secrets under the DTSA.¹¹

ADDITIONAL ASPECTS OF THE DTSA

- **The DTSA provides an opportunity to enforce trade secret protection in federal court**

Prior to the enactment of the DTSA, it was more difficult to bring trade secret claims in federal court, as there was generally no basis for federal court jurisdiction outside of diversity jurisdiction. But the DTSA now provides a federal forum for employers seeking to protect their trade secrets. Importantly, the DTSA does not preempt state trade secret law.¹²

- **The remedies offered by the DTSA are similar to those provided by the UTSA, but also provide for immediate seizure of materials in extraordinary circumstances**

Although the remedies afforded parties in the DTSA are generally similar to the remedies provided in the UTSA, one major difference between the two statutes is that the DTSA provides for the seizure of materials containing trade secrets prior to the filing of any lawsuit, or contemporaneously with the filing of a lawsuit, and without notice to the party whose materials may be seized.¹³

This mechanism is expressly reserved for "extraordinary circumstances," to "prevent the propagation or dissemination of the trade secret that is the subject of the action."¹⁴ Picture an ex-employee, with a thumb drive containing the company's premier trade secrets, about to board the slow boat to Antarctica. Now an employer can head to federal court to seek an order commanding the seizure of the thumb drive to prevent its departure from the United States.

In other respects, the remedies offered under the DTSA are similar to actions under state trade secret law, including the issuance of injunctions to prevent actual or threatened misappropriation, affirmative actions to protect the trade secret, and the imposition of a reasonable royalty.¹⁵

For instances of willful and malicious misappropriation, the statute provides for exemplary damages no more than two times the damage awarded for the misappropriation, as well as attorneys' fees, which are also available for bad faith claims of misappropriation, and bad faith motions to terminate an injunction or opposing the termination of an injunction.¹⁶

- **The DTSA does not adopt the Inevitable Disclosure Doctrine**

It is not uncommon for employees to leave a position with one company and take a similar position with a competitor. In certain jurisdictions, the doctrine of inevitable disclosure may apply, in which the former employer seeks to enjoin the former employee

from working for the competitor, claiming it is inevitable that the departing employee will use his or her knowledge of the former employer's trade secrets while employed by the new employer.¹⁷

The DTSA, however, did not adopt this doctrine, and expressly disclaims it. The new law precludes injunctive relief to prevent a person from entering into an employment relationship based upon information the person knows, instead requiring evidence of threatened misappropriation.¹⁸

- **Verbiage is generally consistent with the Uniform Trade Secrets Act**

Because the DTSA is modeled upon the Uniform Trade Secrets Act, the definitions of key terms in both statutory frameworks are very similar, and the small definitional differences highlight the intentionally broad scope of the DTSA. For example, the definition of "trade secret" used by the DTSA¹⁹ is, on its face, more broad than the definition of "trade secret" used by the UTSA:

DTSA DEFINITION OF "TRADE SECRET"	UTSA DEFINITION OF "TRADE SECRET"
<p>[A]ll 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—</p> <p>(A) the owner thereof has taken reasonable measures to keep such information secret; and</p> <p>(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.</p>	<p>[I]nformation, including a formula, pattern, compilation, program, device, method, technique, or process, that:</p> <p>(i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and</p> <p>(ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.</p>

TAKEAWAYS

- For any agreements that include provisions regarding trade secrets or confidentiality of information, be sure to include new language specifically referencing the DTSA, or a reference to a corporate policy which explains the immunity provided by the DTSA.
- Update corporate policies relating to trade secrets, confidentiality, disclosures to government officials, or whistleblowing to include the language required by the DTSA.
- If you have any questions regarding these or any other employment and labor issues, contact your friendly counsel from Morrison & Foerster's Employment and Labor Group.

John Trocki is counsel in our Northern Virginia office. He can be reached at (703) 760-7712 or jtrocki@mofo.com.

To view prior issues of the ELC, click [here](#).

1 Sen. Rep. No. 9114-220, 114th Cong., 2d Sess. 2 (Mar. 7. 2016).

2 Pub. L. No. 114-153 (May 11, 2016).

3 18 U.S.C. §§ 1831-1839.

4 See 18 U.S.C. § 1833(b)(1).

5 18 U.S.C. § 1833(b)(1)(A)(2).

6 18 U.S.C. § 1833(b)(1)(B).

7 The definition of "employee" includes "any individual performing work as a contractor or consultant for an employer." 18 U.S.C. § 1833(b)(4).

8 18 U.S.C. § 1833(b)(3)(A).

9 18 U.S.C. § 1833(b)(3)(B).

10 For additional discussion of the DTSA, please review the MoFo Client Alert on the DTSA, available at: (<http://www.mofo.com/~media/Files/ClientAlert/2016/05/160511DefendTradeSecretsAct.pdf>).

11 See 18 U.S.C. § 1833(b)(3)(C).

12 See 18 U.S.C. § 1838.

13 See 18 U.S.C. § 1836(b)(2).

14 18 U.S.C. § 1836(b)(2)(A)(i).

15 18 U.S.C. § 1836(b)(3).

16 18 U.S.C. § 1836(b)(3)(C) and (D).

17 See, e.g., *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262 (7th Cir. 1995); see also *E.I. DuPont deNemours & Co., v. American Potash and Chem. Corp.*, 200 A.2d 428, 431 (Del. Ch. 1964); and *Newell v. Rubbermaid, Inc. v. Storm*, C.A. No. 9398-VCN, 2014 Del. Ch. LEXIS 45, *33 (Mar. 27, 2014).

18 See 18 U.S.C. § 1836(b)(3)(A)(i)(I).

19 18 U.S.C. § 1839.

We are Morrison & Foerster — a global firm of exceptional credentials. Our clients include some of the largest financial institutions, investment banks, and Fortune 100, technology, and life sciences companies. We've been included on *The American Lawyer's* A-List for 12 straight years, and the *Financial Times* named the firm number six on its 2013 list of the 40 most innovative firms in the United States. *Chambers USA* honored the firm as its sole 2014 Corporate/M&A Client Service Award winner, and recognized us as both the 2013 Intellectual Property and Bankruptcy Firm of the Year. Our lawyers are committed to achieving innovative and business-minded results for our clients, while preserving the differences that make us stronger.

Because of the generality of this newsletter, the information provided herein may not be applicable in all situations and should not be acted upon without specific legal advice based on particular situations. The views expressed herein shall not be attributed to Morrison & Foerster, its attorneys, or its clients. This newsletter addresses recent employment law developments.

If you wish to change an address, add a subscriber, or comment on this newsletter, please write to:

Wende Arrollado | Morrison & Foerster LLP
12531 High Bluff Drive, Suite 100 | San Diego, California 92130
warrollado@mofo.com