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Recent Intellectual Property Developments

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How the Defense of Trade Secrets Act Impacts Your Business

President Obama signed the Defense of Trade Secrets Act (DTSA) into law on May 11, 2016. This Act significantly changed both intellectual property rights and the steps required to protect those rights. In fact, the DTSA is one of the biggest changes to intellectual property law this century. Here are the four most significant changes that in-house counsel need to know.

1. A Federal Cause of Action

The DTSA amends the Economic Espionage Act to create a federal civil cause of action for trade secret misappropriation so long as the trade secret is "related to a product or service used in, or intended for use in, interstate of foreign commerce." Notably, the DTSA does not preempt state causes of action for trade secret misappropriation. This means that plaintiffs in trade secret misappropriation cases will have the option of using either state or federal courts.

2. Definition of Trade Secret

To demonstrate that information is a trade secret, the DTSA requires that the owner has taken reasonable measures to keep the information a secret and that "the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure." This differs from the Uniform Trade Secret Act's requirement that a trade secret not be generally known to the public. This change suggests that it is the plaintiff's industry and not the public at large, who must not know the trade secret. While many states have interpreted the Uniform Trade Secrets Act in this manner before, the DTSA provides clarity.

3. Remedies

Remedies under the DTSA include actual loss, unjust enrichment and, in "exceptional circumstances," injunctive relief. Willful misappropriation may lead to double damages. Like the Patent Act but unlike the Uniform Trade Secrets Act, the DTSA provides courts with the option of awarding reasonable royalties. Further, the DTSA offers a mechanism for civil seizure of the misappropriated trade secrets by the courts, which could serve as an effective temporary restraining order.

4. Amend Your Confidentiality Agreements

The DTSA requires counsel across the country to update confidentiality agreements and provide notice of certain disclosures that are immune to the DTSA. Confidentiality agreements must notify employees that a disclosure is immune from the DTSA if a disclosure is made either "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; or is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal." Notably, the DTSA defines employees to include independent contractors, so this provision extends beyond employment agreements to other agreements such as NDAs and licensing agreements. Failure to provide this notification will deprive companies of their right to seek exemplary damages and attorney fees.

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