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Intellectual Property Alert
News Concerning Recent Intellectual Property Issues

COZEN O'CONNOR

2016 DTSA: Providing Manufacturers with New Avenues to Protect Trade Secrets

On May 11, 2016, President Barack Obama signed the Defend Trade Secrets Act of 2016 (DTSA), which provides a federal civil cause of action to manufacturers for the misappropriation and theft of trade secrets under the Economic Espionage Act. While the DTSA substantially mirrors the protections afforded under the Uniform Trade Secrets Act, currently adopted by 48 states, the DTSA gives manufacturers a choice of whether to file in state or federal court. Importantly, the DTSA provides manufacturers with new avenues to address a wide range of trade secret issues.

For manufacturing companies with trade secrets "related to a product or service used in, or intended for use in, interstate or foreign commerce," the DTSA provides, for example:

Federal Civil Action

The DTSA creates a federal civil cause of action, giving original jurisdiction to U.S. District Courts. This will allow companies to file in or move most trade secret litigation to federal court. The original federal jurisdiction conferred by the DTSA will, in turn, invariably include federal supplemental jurisdiction for claims for breach of contract, related common law claims, and state statutory claims. Importantly, similar to federal employment laws, the DTSA does not supersede state trade secret laws.

Seizure of Property

Unlike any of the pre-existing state laws, the DTSA includes a provision that permits the court to issue an order, upon ex parte application in "extraordinary circumstances," seizing property to protect against improper dissemination of trade secrets. Interestingly, the DTSA permits such an order only if the moving party has not publicized the requested seizure and includes imbedded confidentiality protections that protect seized information from public disclosure. If granted, the court is required to schedule a seizure hearing and the moving party will be required to provide security in an amount to be determined by the court for the payment of any possible damages suffered as the result of a wrongful or excessive seizure. This provision is one of the more robust features of the new law, permitting, for example, the seizure of computer hardware and software that has been used for misappropriation without giving notice to the party against whom the order is issued, and thereby decreasing the risk of spoliation of evidence. This can be an important weapon in dealing with ever-increasing cyberthreats.

Injunctive Relief

The DTSA permits a court to award injunctive relief to "prevent any threatened or actual misappropriation" of trade secrets, including, for example, conditioning (while not preventing) employment relationships that are shown to threaten misappropriation of trade secrets.

Damages and Attorney's Fees

In addition to the seizure of property and injunctive relief, the DTSA permits for the recovery of damages for actual losses and unjust enrichment, and allows for exemplary damages for "willful or malicious" misappropriation of trade secrets. The DTSA also provides for the recovery of reasonable attorney's fees under certain circumstances, including "if a claim of [] misappropriation is made in bad faith, which may be established by circumstantial evidence, a motion to terminate an injunction is made or opposed in bad faith, or the trade secret was willfully and maliciously misappropriated."

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Related Practice Areas

- Intellectual Property
- Products Liability

Whistleblower Protections and Notice Requirement

The DTSA includes civil and criminal immunity under federal and state trade secret laws for any disclosures made to a governmental agency for the purpose of reporting or investigating a legal violation. Of more immediate concern, the DTSA requires that an employer provide notice of these protections in any employment agreement governing confidential information or provide a cross-referenced policy document setting forth the employer's reporting policy. Failure to comply with the notice requirement prohibits the recovery for exemplary damages and attorney's fees under the DTSA. In light of this notice requirement, employers should review their confidentiality agreements, provisions, and policies to determine how best to navigate this new law.

Enhanced Civil RICO Liability

The DTSA also amended the Racketeer Influenced and Corrupt Organizations (RICO) Act by including that theft of trade secrets constitutes a "predicate act." DTSA at § 3. RICO provides civil plaintiffs with a separate cause of action related to trade secret misappropriation with different elements and damages. A civil RICO claim, in some cases, may provide even higher damages than a misappropriation claim.

The primary effect of the DTSA is to federalize trade secret misappropriation actions and ensure full access to the federal courts for trade secret litigants, thereby ushering in a new era by providing a federal cause of action for trade secret misappropriation that falls in line with its federal IP cousins.

By also amending the civil RICO statute, the DTSA additionally opens an alternative, and potentially even more threatening, avenue for relief for theft of trade secrets. A RICO claim generally involves showing (1) conduct (2) of an enterprise (3) through a pattern (4) of racketeering activity. 18 U.S.C. § 1962 (2012). In order to show a "pattern," a plaintiff must show that at least two predicate acts were committed, that the predicate acts were related to one another, and that the predicate acts amount to or pose a threat of continued criminal activity. *See, e.g., H.J. Inc. v. Nw. Bell Tel. Co.*, 492 U.S. 229, 231 (1989).

This amendment to RICO also broadens the scope of liability beyond misappropriation to "theft" of a trade secret. While misappropriation generally covers the acts of acquisition, disclosure, and use, theft of a trade secret extends to a wider variety activities, including duplication, alteration, concealing, attempts – and perhaps most notably – mere possession. 18 U.S.C. § 1832(a) (2012). These alternative avenues of liability may enable a plaintiff to show a pattern of racketeering activity, and in some cases, may substantiate liability where a misappropriation theory would not. In addition, even in cases where a misappropriation occurred before May 11, 2016, the effective date of the DTSA, theft of trade secrets may be committed or continue after the effective date.

The damages for violation of the RICO statute are also higher. A civil RICO claim could permit recovery of **triple** (instead of double under the DTSA) the amount of actual losses and attorney's fees. 18 U.S.C. § 1964(c) (2012). Further, while an award of exemplary damages and attorney's fees against a former employee for trade secret misappropriation is contingent on providing notice of immunity from liability for disclosing trade secrets to a government official or through a court filing, exemplary damages and attorney's fees under civil RICO are not contingent on providing such notice. DTSA § 7 (notice provision only applies to exemplary damages and attorney's fees under section 1836(b)(3)). Since misappropriation and civil RICO provide for different damages, which one provides greater damages will depend on the particulars of each case.

Another benefit to the amendment of RICO by the DTSA is that civil RICO liability may continue after the statute of limitations has run on a misappropriation claim. The statute of limitations on misappropriation is three years, measured from the date the misappropriation is or should have been discovered. DTSA at § 2. For a civil RICO claim, the statute of limitations is four years from when the harm was or should have been discovered. *See, Rotella v. Wood*, 528 U.S. 549, 553.

Potential plaintiffs in a trade secret case should therefore consider bringing a civil RICO claim in addition to a misappropriation claim under the DTSA. Moreover, in some cases, such as where the misappropriation occurred prior to the DTSA effective date, or where a misappropriation claim is time-barred, a civil RICO claim may be the only claim available. Potential damages may also be higher, and depending on the facts of the case, a plaintiff may find it easier to prove trade secret

theft than trade secret misappropriation. The DTSA's amendment to the civil RICO statute is therefore important, and should not be overlooked as yet another potential new basis for recovery for theft of trade secrets.

In light of all this, manufacturers should take stock and proactively protect against dissemination of their trade secrets while simultaneously updating their employee handbooks and agreements to ensure availability of exemplary damages and attorneys' fees under the DTSA should any action be required. As the saying goes, "an ounce of prevention is worth a pound of cure."

To discuss any questions you may have regarding this Alert, or how it may apply to your particular circumstance, please contact Abby L. Sacunas at (215) 665-4785 or asacunas@cozen.com or Jeffrey D. Feldman at (305) 397-0850 or jfeldman@cozen.com.