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THE FEDERAL DEFEND TRADE SECRETS ACT (DTSA): WHAT YOU SHOULD DO NOW

Trade secret protection is vitally important to the seed industry. ASTA members devote substantial resources to developing new products, processes, and business strategies, and disclosure of such proprietary information to a competitor can be financially devastating. Fortunately, the Federal Government recently strengthened the legal protections available for trade secrets by enacting the Defend Trade Secrets Act, or “DTSA,” which gives business owners new federal remedies for trade secret misappropriation. However, to take full advantage of all of the new remedies, business owners should immediately start including a specific notice in all of their contracts and agreements with employees, contractors, and consultants governing the use of trade secrets or other confidential information.

What Is a Trade Secret?

The seed industry benefits from legal protections for product innovations, including patents for new plant varieties and plant breeders’ rights under the Plant Variety Protection Act. Trade secret laws supplement these protections by allowing companies to keep certain non-public business information secret—for example, proprietary formulas, methods, techniques, processes, business plans, certain financial or sales data, and, in some cases, customer lists. To obtain trade secret protection for information, a business must take reasonable steps to keep the information confidential and the information must have economic value because it is not known to competitors (i.e., it gives the owner of the information a competitive advantage). Because the wrongful use or disclosure of trade secrets can cause irreparable economic harm, companies should limit access to trade secrets to those with a “need to know” and, more importantly, should require anyone receiving trade secret information –whether employees, contractors, vendors, or business partners – to sign a contract prohibiting the recipient from improperly using or disclosing trade secrets.

DTSA’s New Trade Secret Protections

Trade secret misappropriation is already actionable under state laws, and the DTSA does not alter those protections. Rather, the DTSA adds more arrows to the quiver of a company seeking to protect its trade secrets. The DTSA gives trade secret owners access to federal courts and an array of remedies, including, in extraordinary circumstances, seizure of property by law enforcement officials, without prior notice to the property holder, where necessary to prevent the dissemination of a trade secret. The statute also allows trade secret owners to seek and obtain federal injunctive relief barring the misuse of trade secrets, and compensatory damages for losses stemming from misappropriation. In addition, in the event of willful and malicious misappropriation, a trade secrets owner can obtain punitive damages (up to two times compensatory damages) and reasonable attorney’s fees.

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Protections for Whistleblowers

At the same time that the DTSA increases protections for trade secret owners, it also provides new protections for whistleblowers. Specifically, the statute provides legal immunity to whistleblowers for making limited disclosures of trade secrets in confidence to government officials, or to an attorney, for the sole purpose of reporting or investigating a suspected violation of law. This immunity does not permit an individual to disclose trade secrets publicly (absent court order), and it requires court filings containing the trade secret to be made under seal. In a lawsuit alleging that an employer has retaliated against an employee for whistleblowing, the employee may also disclose the trade secret to his/her attorney and use the trade secret in the court proceeding under seal pursuant to court order.

What ASTA Members Should Do Now

The DTSA's whistleblower provisions are critical even if a trade secret owner is never faced with a whistleblower case. That is because in order to take full advantage of the new law's trade secret protections, businesses must provide employees, independent contractors, and consultants with formal notice of the statutory whistleblower immunities in any contract or agreement governing the use of trade secrets or other confidential information.

This requirement applies to all agreements that restrict the use or disclosure of the company's proprietary information, including, for example, offer letters, employment agreements, consulting agreements, contractor engagement agreements, restrictive covenant or confidentiality agreements, nondisclosure agreements, computer use agreements, severance and separation agreements, and invention assignment agreements. Failure to include the required notice in any such agreement means that the company will not be able to recover punitive damages or attorney's fees—two of DTSA's most potent weapons—that would otherwise be available under the statute. Although the notice requirement does not apply to existing contracts, it does apply to any agreement entered into or updated after May 11, 2016, the date that the DTSA became law.

The DTSA does not provide specific language for the required notice. To ensure that adequate notice is given, ATSA members should adopt language such as the following:

Pursuant to 18 USC § 1833(b), an individual may not be held liable under any criminal or civil federal or state trade secret law for disclosure of a trade secret: (i) made in confidence to a government official, either directly or indirectly, or to an attorney, solely for the purpose of reporting or investigating a suspected violation of law or (ii) in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. Additionally, an individual suing an employer for retaliation based on the reporting of a suspected violation of law may disclose a trade secret to his or her attorney and use the trade secret information in the court proceeding, so long as any document containing the trade secret is filed under seal and the individual does not disclose the trade secret except pursuant to court order.

Consistently incorporating this language into all employee, contractor, and consultant agreements governing access to trade secrets and other confidential information will allow members to utilize all of the valuable protections afforded under the DTSA.

For more information about this topic, please contact:

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