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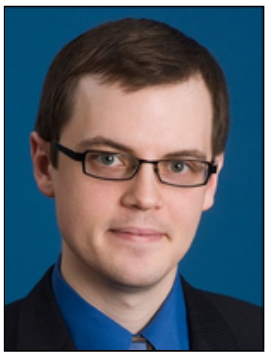
Will DTSA Whistleblower Protection Be A Game-Changer?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Law360, New York (June 2, 2016, 11:18 AM ET) -- The Defend Trade Secrets Act of 2016 presents a host of new questions for attorneys on both sides of the whistleblower bar. Designed primarily to provide legal recourse under federal law to companies when their trade secrets are misappropriated, the DTSA was amended prior to passage to include a whistleblower immunity and protection provision. While whistleblower advocates have understandably hailed the inclusion of these protections, their practical effect, particularly in the context of retaliation cases, remains to be seen.

Background

Prior to the passage of the DTSA, most states had adopted some variation of the Uniform Trade Secrets Act. The UTSA, drafted by the Uniform Law Commission (ULC), defines a "trade secret" as "exclusive knowledge, of economic value, which has been generated by the labors of a specific person or persons who have an interest in protecting its value." Trade Secrets Act Summary, Uniform Law Commission. The ULC noted that the "[k]ey to the need for protection is the fact that the information is not generally known to others and is not readily ascertainable by proper means."

Despite widespread recognition of the economic importance of protecting trade secrets, there was no applicable federal legislative scheme as existed in the fields of patent, trademark and other intellectual property law. As a result, a patchwork of rights and potential liabilities developed across the country, creating uncertainty for employees and businesses. Proponents of the DTSA sought to remedy that situation, and the law garnered broad bipartisan support, passing unanimously in the Senate and with just two dissenters in the House of Representatives.

Senator Charles E. Grassley of Iowa submitted a report to accompany the Senate's passage of its version of the DTSA in which he discussed some of the issues that motivated the passage of the act. S. REP. NO. 114-220 (2016). Senator Grassley wrote that the American economy loses approximately $300 billion and 2.1 million jobs annually due to trade secret theft. Id. at 2. The report explained that the DTSA amends the Economic Espionage Act of 1996 (EEA), which made it a criminal offense to misappropriate trade secrets, but which did not provide trade secret owners with a private right of action to sue alleged offenders. Id. at 3. As Senator Grassley explained, the DTSA will allow trade secret owners "to protect their innovations by seeking redress in federal court, bringing their rights into alignment with those long enjoyed by owners of other forms of intellectual property, including copyrights, patents and trademarks." Id.

Trade Secret Protections and Whistleblowers

While it is unquestionably important to protect trade secrets from misuse, serious side effects result from blanket trade secret protection. For example, it can deter would-be whistleblowers from using information deemed to constitute a "trade secret" in submitting a tip to an agency like the U.S. Securities and Exchange Commission regarding securities fraud — misconduct that might harm millions of investors. Similarly, an individual who faced retaliation for reporting corporate misconduct may be hard-pressed to prove an employment claim without referring to potentially sensitive company information.

The consequences to an individual found to have misused or misappropriated trade secrets are significant. Indeed, it is not uncommon for companies to seek — or threaten to seek — criminal charges for theft of trade secrets against whistleblowers whose intention was to prevent or correct illegal activity at their companies. In this way, trade secrets protections under the various state iterations of the UTSA became a powerful tool for companies to use against whistleblowers. Importantly, the UTSA contained no carve-out to ensure that an employee who used private company information to report a company's wrongdoing was not exposed to retaliation or criminal liability as a result.

Whistleblower advocates secured a victory when Congress included such a whistleblower protection provision in the DTSA. Under the DTSA, whistleblowers are immune from criminal or civil liability for disclosing a trade secret "in confidence to a federal, state or local government official ... solely for the purpose of reporting or investigating a suspected violation of law[.]" Pub. L. No. 114-153, § 7(b)(1). This is a critical protection that should protect many whistleblowers from unfair prosecution for utilizing company information to report illegal activity.

Many in the plaintiffs' bar have also cheered the inclusion of a separate provision allowing an employee "who files a lawsuit for retaliation by an employer for reporting a suspected violation of law [to] disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding" — but only so long as the whistleblower files any document containing the trade secret under seal and refrains from disclosing the trade secret without a court order. Pub. L. No. 114-153, § 7(b)(2). This provision reflects the fact that whistleblowers who experience retaliation often cannot prove their claims without exposing themselves to potential prosecution for disclosing information that may fall within the definition of a "trade secret."

In practice, however, Section 7(b)(2) may fail to realize the full scope of its intended effect. There are a number of areas where the provision does not address the reality of whistleblower litigation, and it appears that the drafters left potential gaps in the protections afforded to whistleblowers.

What is a Lawsuit?

The DTSA immunizes a whistleblower from prosecution from using trade secret information "in the court proceeding" after the whistleblower "files a lawsuit [under seal] for retaliation." However, most whistleblower retaliation statutes require a whistleblower to file a complaint with the U.S. Occupational Safety and Health Administration before proceeding to court. A complaint submitted to OSHA arguably has not been submitted to "the courts of law," and therefore may not meet the definition of a "lawsuit" — at least as that term is commonly understood. Accordingly, at the administrative stage, the DTSA might not immunize a whistleblower whose charge relied in part on trade secret information to demonstrate the validity or truthfulness of her claims.

Similarly, a whistleblower is unable to submit a "sealed" complaint to OSHA. Thus, even if a court did construe the statute to include an OSHA complaint, the whistleblower could not

comply with one of the required procedures under the DTSA. Utilizing trade secret evidence could therefore leave a whistleblower vulnerable to liability — including under the DTSA itself. In practice, this would simply mean that she was unable to utilize such evidence to prove her claim of retaliation — the very wrong the drafters presumably sought to cure by including the provision in Section 7(b)(2).

Arguably, whistleblowers forced to file their initial complaint with OSHA may be able to take refuge under Section 7(b)(1) of the DTSA, which provides a whistleblower with immunity for liability from "any federal or state trade secret law for the disclosure of a trade secret that ... is made ... in confidence to a federal, state or local government official ... solely for the purpose of reporting or investigating a suspected violation of law[.]" A whistleblower who files a "confidential" complaint of unlawful retaliation with OSHA may be able to claim protection under Section 7(b)(1). The defense bar, however, is likely to argue that a "confidential OSHA complaint" is an oxymoron; that OSHA records are subject to Freedom of Information Act requests and therefore may not be made in confidence. This ambiguity in the statutory text will likely have to be resolved by the courts.

Public Policy and the "Under Seal" Requirement

The requirement that whistleblowers who invoke Section 7(b)(2) must file any documents concerning trade secrets under seal, while understandable, may pose serious practical issues for whistleblowers and their practitioners moving forward. First, whether a particular piece of information constitutes a "trade secret" is itself a complex determination of law that may require extensive discovery. Unfortunately, the whistleblower will be forced to make that perilous determination with incomplete information, often at the time of filing a complaint, prior to any formal discovery. This is likely to result in whistleblowers, out of an abundance of caution, filing more and more pleadings under seal.

This incentive for whistleblowers to prophylactically file under seal runs counter to the important public interest in judicial transparency. Courts have long held that there is a presumptive right in public access to judicial records. See, e.g., Richmond Newspapers Inc. v. Virginia, 448 U.S. 555 (1980); Press-Enterprise Co. v. Superior Court of California., 464 U.S. 501 (1984). Although these Supreme Court decisions deal with the right of access to criminal trials, the appellate courts to have considered the issue have found that "the First Amendment guarantees a qualified right of access not only to criminal but also to civil trials and to their related proceedings and records." New York Civil Liberties Union v. New York City Transit Authority., 684 F.3d 286, 298 (2d Cir. 2012) (citing Rushford v. New Yorker Magazine Inc., 846 F.2d 249, 253–54 (4th Cir. 1988); In re Continental Illinois Securities Litigation, 732 F.2d 1302, 1308 (7th Cir. 1984); Publicker Industries Inc. v. Cohen, 733 F.2d 1059, 1070 (3d Cir. 1984); In re Iowa Freedom of Information Council, 724 F.2d 658, 661 (8th Cir. 1983); Newman v. Graddick, 696 F.2d 796, 801 (11th Cir. 1983)).

To force whistleblowers to hide their litigation under the veil of a seal would significantly degrade the "[p]ublic scrutiny ... [that] enhances the quality and safeguards the integrity of the fact-finding process." Globe Newspaper Co. v. Superior Court for Norfolk County, 457 U.S. 596, 606 (1982).

Confidentiality Provisions Still Apply

Another shortcoming with Section 7(b)(2) is that while the provision is limited to immunizing a whistleblower from prosecution and liability for disclosing trade secrets, it might not protect the whistleblower for liability for other related consequences: specifically, violating a confidentiality agreement the whistleblower may have signed with her company. In many instances, the consequences for violating a confidentiality agreement can be significant. Those consequences often form a disincentive that, if not quite as catastrophic as the pre-DTSA threat of criminal prosecution, is nevertheless sufficient to stop the

whistleblower from using the information to substantiate her claim of retaliation. In this way, companies may still be able to contract their way out of meritorious whistleblower claims that the company may have defeated in the pre-DTSA era by threatening criminal prosecution.

Several government agencies — including the SEC, National Labor Relations Board, U.S. Equal Employment Opportunity Commission, Financial Industry Regulatory Authority, and (by way of a proposed rule) the U.S. Department of Defense, NASA and the U.S. General Services Administration — have taken commendable action in recent years to stop companies from implementing and enforcing confidentiality agreements that have the effect of limiting an employee's ability to report illegal activity to the government.

However, these efforts still form only a patchwork quilt affecting some specific disclosures that an employer cannot prevent or impede. Until more comprehensive legislation is put in place to prohibit the abuse of confidentiality agreements to restrict employees from reporting wrongdoing to the government, Section 7(b)(2) could be undermined by employers' ability to contractually prohibit an employee from relying on trade secret information to support their claims of retaliation.

Conclusion

There is no dispute that the protections of Section 7(b) of the DTSA are — and should be — received by whistleblower advocates as welcome news. But those representing whistleblowers must not assume that the immunity provisions will be construed broadly. One of the oldest whistleblower statutes, the False Claims Act, has been amended several times as Congress has attempted to craft legislation addressing decisions that narrowed the scope of its protections. Section 7(b) of the DTSA continues to build on the legacy of the FCA and other whistleblower statutes that protect the public from fraud and illegality, and it is important that lawyers representing whistleblowers advocate for an interpretation that advances its lofty goals.

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