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The Defend Trade Secrets Act of 2016 – Key Takeaways

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On May 11, 2016, President Obama signed the Defend Trade Secrets Act of 2016 ("DTSA") into law. Below is a brief synopsis of DTSA's key takeaways followed by a more thorough discussion of DTSA's significant features.

Executive Summary:

- **Uniformity** – a uniform set of rules obviates the need for trade secret holders to navigate the numerous and significant differences in the protection of trade secrets under state law.
- **Seizure** – a mechanism for seizing trade secrets where traditional injunctive relief would be insufficient.
- **Limited Injunctive Relief** – former employees cannot be restrained from working for a competitor (unless it is clearly needed to protect the trade secrets) and DTSA does not circumvent state law on restrictive covenants.
- **Damages** – besides injunctive relief, damages, exemplary damages and attorneys' fees.
- **Notice** – the ability to recover exemplary damages and attorneys' fees is limited to companies that provide notice to their workforce that trade secret disclosure to a government official or to an attorney for the sole purpose of reporting or investigating a suspected legal violation is permitted.
- **No Preemption** – state laws still exist and, in certain circumstances, may be the most advantageous course of action for protecting trade secrets.

Each of these developments and changes, as well as others, is discussed in greater detail below.

Uniformity Created by a Federal Private Right of Action

Traditionally, lawsuits for misappropriation of trade secrets have been fought in state court and under state law. 48 of the 50 states (New York and Massachusetts are the only outliers) have adopted the Uniform Trade Secrets Act (UTSA). While this almost uniform statutory base does provide for some commonality among state trade secret laws, there are significant differences as (i) the UTSA was adopted in many variations, and (ii) state courts developed their own, individual jurisprudence for interpreting the state versions of the UTSA. This has resulted in significant inconsistencies across the country in the protection afforded to a company's or an individual's trade secrets. For example, what constitutes a "trade secret," what rises to the level of "misappropriation" of a trade secret, and what remedies are available for trade secret misappropriation vary significantly from state-to-state.

Creating a private right of action under DTSA in federal court allows companies and individuals to seek relief nationwide without having to account for the various differences found under state law. This uniformity should make it easier for companies and individuals to determine what information or property is protectable and to better predict the outcome of any cause of action they may bring.

Civil Seizure

Perhaps the most exceptional option afforded by DTSA is the right to seek a civil seizure for misappropriation of trade secrets. DTSA provides that in "extraordinary circumstances" a court may order the civil seizure of property "necessary to prevent the propagation or dissemination of the trade secret that is the subject of the action." DTSA does not intend the seizure application to be headline news. Rather, the application is conditioned on the requirement that the "applicant has not publicized the requested seizure." Of course, it remains to be seen how caselaw develops on this point, as many media organizations monitor court dockets and the publicity restriction only pertains to the applicant.

DTSA recognizes that seizures may involve electronically stored information and thoughtfully contemplates that (i) law enforcement officials (who have responsibility for all seizure actions) may request the assistance of "independent experts" who are unaffiliated with the seizure applicant and (ii) special masters may be appointed by the courts to locate and isolate misappropriated trade secrets. Further, DTSA prohibits the seizure applicant (or any of the applicant's representatives) from playing any role in the seizure or from being given access to the seized property.

If an individual whose property has been seized suffers damage as a result of a wrongful or excessive seizure, DTSA provides that individual with a private right of action against the person who sought the seizure. Recovery is not limited to the security required to obtain the order of seizure.

Remedies Available

The remedies available beyond the seizure requirements are familiar. They include: (1) an injunction; (2) an award of damage; (3) an award of exemplary damages; and (4) an award of attorneys' fees.

DTSA specifies that its scope is limited to "prevent[ing] any actual or threatened misappropriation" of a trade secret. Injunctions sought under DTSA may not prevent a person from entering into an employment relationship. DTSA specifies that if restrictions are placed on an employee via an injunction, those restrictions must actually be tailored to the potential misappropriation and not simply based upon the information known by the employee. Thus, while DTSA does allow for injunctions, an injunction will not be permitted as a back door to a non-compete provision, particularly in jurisdictions that are hostile to the enforcement of non-competes.

Exemplary damages of two times the amount of damages and attorneys' fees can be awarded in cases where there is proof that the misappropriation was "willful and malicious." DTSA also protects those being sued under DTSA by providing for an award of attorneys' fees where there is a showing of "bad faith" in bringing the misappropriation claim or where a motion to terminate an injunction is opposed in "bad faith."

Immunity For Lawful Disclosure

Consistent with recent developments in the whistleblowing arena, DTSA provides that an individual cannot be held criminally or civilly liable for disclosure of a trade secret made in confidence to a government official (federal, state, or local) or to an attorney for the sole purpose of reporting or investigating a suspected legal violation. DTSA also protects against liability for disclosure of a trade secret in a complaint or other lawsuit related document if the filing is made under seal.

To drive this point home, DTSA does two things. First, it provides that an "employer shall provide notice of the immunity" relating to lawful disclosures "in any contract or agreement with an employee that governs the use of a trade secret or other confidential information." This means that if an employee is signing a confidentiality agreement, the confidentiality agreement **must** be modified to account for DTSA's provisions on lawful disclosures. Fortunately, and again thoughtfully, DTSA provides that employers can comply with this requirement by "cross-referenc[ing] to a policy document provided to the employee that sets forth the employer's reporting policy for a suspected violation of law." Thus, to lessen the burden, employers may be able to simply reference other policies that are already existent, rather than modifying existing policies to comply with DTSA.

Second, DTSA ties the ability to collect exemplary damages or attorneys' fees in a private cause of action to providing the aforementioned immunity.

No Preemption

DTSA provides that U.S. District Courts will have original jurisdiction over civil actions. DTSA is clear, however, that it does not replace or override any state laws regarding trade secrets. This provides the potential for forum shopping as claims can still be brought under state law, and may not be subject to removal if only state causes of action are pled. This is similar to the dynamic found in employment discrimination cases brought under state or local laws as opposed to federal law. In some circumstances, depending on the facts, state law and local judges, there may be advantages to (a) including state law claims with DTSA claims in federal court or (b) bringing state law claims in state court.

What Should Employers Do?

For employers who possess and protect trade secrets, DTSA should be a welcomed addition in the quiver as it will likely provide increased predictability and consistency in the protection of trade secrets. That being said, interested parties should be mindful that it will take time to develop an approved process for handling the various provisions under DTSA, particularly those associated with civil seizure. And keep in mind that your best strategic move in some situations may be to forego federal court and DTSA, and instead pursue state law claims in state court.

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