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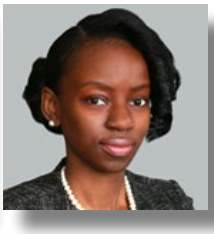

# The Federal Gates Are Open: Defense of Trade Secrets Act 2016

by David L. Newman and Christina O. Alabi

## The Federal Gates Are Open for Trade Secret Owners

Companies can now bring civil actions for misappropriation of their trade secrets in federal courts through the Defense of Trade Secrets Act 2016 ("DTSA"). The DTSA law allows companies to more easily prevent former or current employees and competitors from misappropriating customer lists, pricing lists, proprietary business methods, algorithms, know-how, recipes, formulas and other protectable trade secrets. Some procedural holes that were present under the old trade secret regime have been filled by the DTSA, signed into law last week by President Barack Obama.

Prior to the DTSA law, a party seeking recourse from a former employee or company misappropriating its trade secrets could only bring its lawsuit under state trade secret laws. But state courts have many disadvantages to federal courts. In many circumstances, federal courts are the preferred venue to litigate these conflicts because federal judges have more experience with technology disputes and typically have lighter dockets than state court judges. However, when a complaint was based on state trade secret laws, such as the Uniform Trade Secrets Act ("UTSA"), federal court was not necessarily the correct venue to hear the lawsuit.

Now, a company no longer has to rely on other federal statutes to gain federal jurisdiction – the DTSA automatically grants original jurisdiction to any United States Federal District Court.

## UTSA vs. DTSA

The UTSA has been adopted by 48 states and the District of Columbia and has been the main statute to help prevent theft of trade secrets since its inception in 1979. The DTSA and UTSA share some similarities. For example, the DTSA still requires a party to file its lawsuit within three years. However, there are several noteworthy differences, some of which will change certain employment-related practices concerning trade secrets, to ensure a successful remedy in the event of a misappropriation ruling.

### Civil Seizure

Absent from the UTSA is the DTSA's civil seizure remedy that can urgently prevent the propagation or dissemination of a misappropriated trade secret. Civil seizure is a very strong tool for an aggrieved party to use, since it prevents the destruction of evidence or dissemination of a company's "crown jewels" by allowing a court to order the immediate confiscation of the protectable trade secret materials.

However, under the DTSA, a civil seizure may only occur in extraordinary circumstances. How the courts will define an extraordinary circumstance remains to be seen.

## Remedies

*Damages*

When it comes to damages, the DTSA and UTSA are similar. The DTSA and UTSA both provide damages for actual loss, unjust enrichment, or a reasonable royalty, and attorney's fees to the prevailing party. Courts can also award exemplary damages of up to two times the actual loss for willful and malicious misappropriation under both the DTSA and UTSA.

*Injunctive Relief*

The Acts differ, however, regarding injunctive relief. Under the UTSA, actual or threatened misappropriation may be enjoined. The DTSA requires more. First, the DTSA will not enjoin a person from entering into an employment relationship. Second, before the court will place any conditions on that person's employment, it must have evidence of threatened misappropriation as opposed to mere knowledge of trade secrets. The latter is commonly referred to as the inevitable disclosure doctrine. This doctrine is not present with the new DTSA law.

## Notice of Immunity from Confidential Disclosure

Employers seeking to protect their trade secrets customarily enter into confidentiality, non-compete and/or non-disclosure agreements governing its use, at the onset of a new employee, independent contractor or consultant relationship. The DTSA requires that these agreements contain a notice of immunity from liability for confidential disclosure of a trade secret to the government or in a court filing.

By requiring such a notice in an Employee Confidentiality Agreement, the DTSA law has provided a minor defense for employees because non-compliance with this notice can cost the company a loss of its award for exemplary damages or attorney's fees despite prevailing on its claims for misappropriation. On the other hand, once the notice provision regarding government or court disclosure is inserted in a company's standard Employee Confidentiality Agreement, there is little exposure for trade secret owners because such disclosures are usually covered by a Court's Protective Order anyhow.

## The Future of Defending Trade Secrets

It is important to note that the DTSA will not conflict with or preempt state laws. In practice this means a federal court could still enjoin an employee through the existing state law, for example. This also means a company could still choose to file its suit in state court or use both the UTSA and DTSA in the same federal lawsuit for strategic reasons.

Nonetheless, the DTSA certainly opens the federal gates for companies victimized by theft of their trade secrets. Most notably, the DTSA provides additional tools to prevent employees or competitors from misappropriating trade secrets, such as customer lists, pricing lists, marketing strategies, proprietary business methods, know-how, recipes, formulas and other trade secrets. These tools will likely provide a stronger deterrent to theft of trade secrets than under the UTSA law.

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