

President Obama Signs the Defend Trade Secrets Act of 2016

MAY 11, 2016

On May 11, 2016, President Obama signed the Defend Trade Secrets Act of 2016 (“DTSA”) into law. This Act creates a federal cause of action for misappropriation of trade secrets and entitles the trade secret owner to pursue its claims in federal court. Historically, employers and other trade secret owners were forced to file suit in state court (unless diversity existed or there was some federal claim included in the suit) relying on state law (generally, some form of the Uniform Trade Secrets Act). State law is still available, but now a litigant has the option of a federal forum with additional rights and remedies under the DTSA.

The DTSA specifies a three-year statute of limitations, and it authorizes the court to enter an injunction as well as an award of damages to compensate for monetary loss or unjust enrichment, or to impose liability for a reasonable royalty. Additional damages equal to two times the amount of damages and attorneys’ fees are also available for willful and malicious misappropriation or certain bad faith litigation conduct.

Perhaps the most controversial aspect of the DTSA is the section allowing for pre-judgment seizure of property, without advanced notice to the accused, to prevent the dissemination or loss of the trade secrets at issue. This provision only applies in “extraordinary circumstances,” specifies certain facts and instances in which such an order may be issued, requires the court to set forth findings of fact and conclusions of law in the order, and requires the movant to post security for payment of damages in the event of a wrongful or excessive seizure. The Court must hold a hearing not later than 7 days after issuance of the Order, unless the party against whom the order is issued consents to another date. The Court must take any seized materials into its custody, secure the property from access during the seizure and while in the court’s custody, including a prohibition on connecting the property to a network or the internet without the consent of both parties, and take measures to maintain the confidentiality of the seized materials that are unrelated to the trade secret materials.

The DTSA does include certain protections for defendants. It allows a defendant to challenge an improper seizure of property and recover damages (not limited to the amount of security) for wrongful seizure and

to file a motion to dissolve or modify the order (with consent to the other party), specifies certain employment protections for a party subject to an order, and authorizes the recovery of attorneys' fees for actions brought in bad faith. It also requires that the court take appropriate action to protect the person subject to the order from publicity.

Whistleblowers are also protected from civil or criminal liability under federal or state trade secret law for disclosing a trade secret in confidence to government official or to an attorney solely for purpose of reporting or investigating a suspected violation of law or included in a complaint or other document filed under seal in a lawsuit. An employer is required to include notice of this DTSA whistleblower immunity in any contract or agreement with an employee (which is defined to include any contractor or consultant performing work for the employer) that governs the use of a trade secret or other confidential information and is entered into or updated after the effective date of the DTSA. An employer may comply with this notice obligation by cross-referencing a policy document provided to the employee that sets forth the employer's policy for reporting suspected violations of law. If an employer fails to comply with the DTSA notice requirement, it may not recover the exemplary damages or attorneys' fees allowed under the DTSA against any employee to whom notice was not provided.

For more information on the matter addressed in this article, please contact the author or your Gordon Arata counsel.