

The Defend Trade Secrets Act Opens Federal Courts To Claims Of Misappropriation Of Trade Secrets

California, like most other states, has adopted the Uniform Trade Secrets Act (UTSA). However, California's version of the UTSA, like many other states, is a modified version of the UTSA, creating a patchwork of trade secret laws nationwide.

On May 11, 2016, President Obama signed the Defend Trade Secrets Act (DTSA), which gives employers a federal private right of action for misappropriation of trade secrets and will help create a nationwide body of trade secret law. Using subject matter jurisdiction, employers now will be able to pursue claims against employees for damages related to trade secret theft in federal court.

The following provisions of the DTSA are particularly notable:

“Seizure” Provision

The DTSA's “seizure” provision, which has no state law corollary, is particularly significant. Under this provision, a party may - on an ex parte basis - apply for and secure an order of the court providing for “seizure of property necessary to prevent the propagation or dissemination of the trade secret” at issue in the litigation. Such an order will allow for removal of the trade secret information from the alleged misappropriator's possession until an evidentiary hearing can be held.

As a safeguard, the seizure provision also creates a cause of action for “wrongful or excessive seizure,” the meaning of which has yet to be defined.

Preemption

The DTSA does not preempt other trade secret protection laws. This means that employers still may seek relief under state law, which may be preferable where the definition of trade secrets is broader under state law or where state law provides a stronger remedy.

Remedies

The DTSA provides for the following damages and remedies: (1) injunctive relief, (2) compensatory damages, including awards

by *Emily Leahy & Kurt A. Franklin*



based on principles of unjust enrichment, (3) exemplary damages (not to exceed twice the amount of the actual damages awarded), and (4) attorneys' fees (awardable to either party upon a showing of "bad faith").

Whistleblower Protection

The DTSA also protects employee whistleblowing activity. It provides that an individual shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that is made: (a) "in confidence" to a federal, state, or local government official, either directly or indirectly; (b) to an attorney, provided that it is disclosed "solely for the purpose of" reporting or investigating a suspected violation of law; or (c) in a complaint or other document filed in a lawsuit or other proceeding filed under seal so that it is not disclosed to the public.

Employers must give notice of these immunity provisions in any contract or agreement with an employee that governs the use of a trade secret or other confidential information. If an employer does not comply with this notice requirement, the employer is prohibited from recovering attorneys' fees and exemplary damages under the DTSA.

Additional Features of the DTSA

- Provides uniform definitions for "trade secrets" and "misappropriation" that are generally consistent with the Uniform Trade Secrets Act, but with a few differences;
- Provides that district courts have original jurisdiction over civil actions brought under the DTSA, allowing for a uniform set of procedural and evidentiary rules;
- Limits injunctive relief that can be awarded to avoid conflicts with state law limitations regarding noncompete contracts and other restraints of trade;
- Has a three-year statute of limitations that applies a discovery rule; and
- Addresses international trade secret theft and economic espionage.

Is Federal Court Better and Will This Give Employers More Choice When it Comes to Forum?

Employers typically are defendants in litigation with their employees, and generally prefer federal court. The benefits of being in federal court include: (1) a more structured and limited discovery process; (2) assignment to a single judge who oversees the case from beginning to end and who may be more likely to grant a motion to dismiss or a motion for summary judgment; (3) federal judges are appointed for life by the President and go through the Senate confirmation process, in contrast to state judges who must run for election (or re-election if initially appointed by the Governor) on a county-by-county basis; (4) federal jury decisions must be unanimous; (5) by virtue of the larger geographic range of the jury pool, federal jury members come from multiple counties, including rural counties; and (6) in terms of staffing and personnel, federal courts currently are better funded than California state courts.

Unfortunately, under current Supreme Court case law, a DTSA counterclaim against an employee will not be an independent basis for removal of a lawsuit to federal court that an employee initially files in state court.

Employer Take Away

The DTSA highlights the need for employers to review their procedures for protecting trade secrets. This includes, among other things, the need to review and possibly revise handbooks and proprietary

information, confidentiality and/or non-disclosure agreements to comport with the new law's requirements and to ensure proprietary information is protected. Additionally, employers should take steps to confirm that new employees do not bring proprietary documents with them from their prior employer. The DTSA also will impact many practical and strategic decisions at the outset of employee-related trade secret cases.

For more information, please contact:

Emily Leahy, Counsel
415-995-5155
ELeahy@hansonbridgett.com

Kurt A. Franklin, Partner
415-995-5086
kfranklin@hansonbridgett.com