

## The Defend Trade Secrets Act of 2016

What You Need to Know Right Now

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### The Defend Trade Secrets Act of 2016

by Travis Crabtree, Michael Kelsheimer and David Lisch

President Obama is expected to sign the Defend Trade Secrets Act of 2016 (DTSA), which was passed by Congress at the end of April 2016. This law could impact your property protection, litigation and employment law strategies.

The DTSA allows parties to bring lawsuits in federal court when another party steals or misappropriates trade secrets. Before the DTSA, most litigants were forced to sue in state court under the Uniform Trade Secrets Act (UTSA), which was approved by 48 of the 50 states including Texas, unless there was another unrelated avenue to appear in federal court. The DTSA is similar to the existing state trade secret laws, but with a few important distinctions discussed below.

#### What is a trade secret?

Trade secrets touch almost every business in America because they are broadly defined and implicated almost every time you hire or terminate an employee. The DTSA, like the UTSA, defines a trade secret as:

All forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and regardless of whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if:

- (a) the owner has taken reasonable measures to keep such information secret; and
- (b) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by another person who can obtain economic value from the disclosure or use of the information.

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## **What intellectual property protections do I need?**

Trade secrets can protect more of your business assets than copyrights, trademarks or patents. The latter are limited in availability and the protections granted. A trade secret does not have to rise to the level of a patentable invention and you do not have to disclose it to the world in order to protect it, as you would a trademark, copyright or patent. Textbook examples of trade secrets are the allegedly secret formula to Coca-Cola and Kentucky Fried Chicken's secret recipe.

Because trade secrets are secrets, they must be kept secret. Restricting employee disclosure of trade secrets is only helpful if the secret is not leaked or shown to prospective customers. The key is to implement company-wide measures to keep the secrets, secret. Counsel can help review what company assets or information may be trade secrets (as opposed to utilizing other intellectual property protections) and whether you have the right processes in place to prevent disclosure.

Ask yourself, how hard is it for an employee to walk out with your information? How damaging would that be?

## **How does the law impact my litigation strategy?**

When signed into law, the DTSA will not preempt state law. If you believe your trade secrets have been misappropriated, you will have the option to sue in federal court under the new law or the existing UTSA under state law.

So, why use the DTSA instead of the UTSA? The DTSA allows a federal court to seize property and prohibit the dissemination of the trade secret "ex parte" (without advance notice to the former employee) in "extraordinary circumstances".

Obtaining a seizure will not be easy. You have to show that the more traditional preliminary injunction, currently available under the UTSA, will not provide adequate protections. To prevent abuses, you are not allowed to make copies of any seized property. Finally, all ex parte orders must include specific instructions regarding when the seizure can take place and whether force may be used to access locked areas.

This remedy is in addition to whatever damages you recover. Under the DTSA, you can recover actual damages, restitution, injunctive relief, exemplary relief (up to two times the award of actual damages) and attorney's fees.

Courts will not, however, enter an injunction under the DTSA if doing so would keep the defendant, such as a former employee, from entering into a new employment relationship. The DTSA would allow for conditions to be put on that employment, but only if you can show threatened misappropriation and not just argue that misappropriation is likely

because of information the defendant knows. The DTSA will not, in other words, support an “inevitable disclosure” claim.

The DTSA also bolsters possible criminal penalties for stealing trade secrets by increasing the penalties for a criminal violation from \$5 million to the greater of \$5 million or three times the value of the stolen trade secrets, including the costs of reproducing the trade secrets.

Using the DTSA may also clarify what law is applicable. While most states have adopted the UTSA, there are still minor variances. If you invoke the DTSA, you will know exactly what law applies regardless of where the parties are located within the United States.

### **As an employer, do I need to take action?**

The DTSA offers some unique benefits for employers. If you have employees throughout the country, the DTSA will allow a uniform mechanism to protect your secrets. If you need to seize property from a former employee, the DTSA is probably your best option.

If these provisions are valuable, update your employment contracts to include the immunity notice required under the DTSA. This will allow you to recover punitive damages and attorney fees. Without the notice “in any contract or agreement with an employee that governs the use of a trade secret or other confidential information,” these added benefits are unavailable.

Of course, the immunity language might give some employers pause, as it warns employees that they are protected in providing trade secret and other confidential information to the government for the purpose of reporting a company’s violation of the law. For employers in good standing, this shouldn’t be a problem.

### **What’s the bottom line?**

The DTSA presents an interesting weapon to protect your trade secrets. If you take action in your employment agreements and protect your trade secrets now, you may be able to file lawsuits in federal court. There are a number of factors that go into deciding whether to pursue a claim in state or federal court, but, with the passage of the DTSA, companies seeking to protect trade secrets will have that option and some additional remedies available to them.

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