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DEFEND TRADE SECRETS ACT OF 2016: PROMOTING UNIFORMITY AND HOW AN EMPLOYER CAN OBTAIN HEIGHTENED DAMAGES FOR UNLAWFUL TRADE SECRET DISCLOSURES

On May 11, 2016, President Barack Obama signed the Defend Trade Secrets Act of 2016 ("DTSA")[1] into law. The DTSA's stated purpose is to bring trade secrets disputes into the federal courts, changing the system under which trade secret law was governed mostly by state law. As part of the DTSA, employers who wish to give greater protection to their trade secrets, and secure greater damage awards for unauthorized disclosures (including attorney fees and exemplary damages), will want to consider adding language to employment, consulting and confidentiality agreements advising employees and consultants about their rights to make lawful disclosures.

DEFEND TRADE SECRETS ACT

Traditionally, trade secrets have been governed by state law. Prior to the passing of the DTSA, 48 out of 50 states had adopted the Uniform Trade Secrets Act ("UTSA").[2] While the UTSA provides some commonality among states, it also created inconsistencies in 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.

Among other provisions, the DTSA:

1. Serves as a platform of authority for federal case law governing enforcement of trade secrets. The DTSA creates a private right of action in federal courts.
2. Limits injunctive relief such that a court may not "prevent a person from entering into an employment relationship." In addition, any conditions on such employment must rest on evidence of "threatened misappropriation and not merely on the information the person knows." Further, any injunctive relief may not conflict with applicable state law prohibiting restrictive covenants.
3. Provides immunity for disclosures of trade secrets under certain circumstances (described below).
4. Provides for damages, based principally on actual losses resulting from the misappropriation of trade secrets or a theory of unjust enrichment.
5. Provides for exemplary damages, of double the amount of damages, where there is proof of willful and malicious misappropriation of trade secrets. Attorney's fees are also available in such situations.

The DTSA should make it easier for companies and individuals to anticipate the outcome of a potential lawsuit brought in federal court. And, although the DTSA states that federal district courts will have original jurisdiction over civil matters, the DTSA does not prohibit trade secret actions brought in state courts. This may encourage forum shopping, but it offers an additional and important choice of forum for employers.

IMMUNITY FOR LAWFUL DISCLOSURE

Section 7 of the DTSA states "individual[s] 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."[3]

The 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."[4]

If an employer wishes to seek attorney fees and exemplary damages for willful and malicious misappropriation of trade secrets by an employee or consultant, the DTSA requires the employer to provide notice of the immunity explained above in any contract or agreement with an employee that governs the use of a trade secret or other confidential information.

To comply with this requirement, an employer may:

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1. Reference Section 7(b) of the DTSA in employment, consulting and confidentiality agreements (for example, in the case of an employer: *"Notwithstanding the foregoing, Employee shall be immune from civil and criminal liability in connection with disclosure of Employer trade secrets if such disclosure is made in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney and the disclosure is either: (a) solely for the purpose of reporting or investigating a suspected violation of law; or (b) in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal"*);
2. Provide a cross-reference to an employer policy such as a whistleblower policy that has been amended to account for DTSA's provisions on the immunity for lawful disclosure; or
3. Include the immunity notice language directly in the employment or consulting agreement.

PRACTICAL TAKEAWAYS

For employers who maintain valuable trade secrets, the DTSA aids in the predictability of the protection of trade secrets and the outcome of civil actions under a unified federal system. The DTSA also permits employers to obtain heightened damages in the form of attorney fees and exemplary damages for willful and malicious misappropriation if the organization provides notice to the employee or consultant that certain protected disclosures of trade secrets are permitted and that such employee or consultant will be immune from liability for such disclosures. To take advantage of this provision, employers should consider adding language related to the DTSA in employment agreements, consulting agreements, confidentiality agreements and employee policies.

If you have any questions, please contact:

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[1] Defend Trade Secrets Act (DTSA), 18 U.S.C. § 1836, et seq. (2016). See https://www.congress.gov/bill/114th-congress/senate-bill/1890/text.

[2] Uniform Trade Secrets Act, Uniform Law Commission (1979) (amended 1985). And see Restatement of Torts § 757, 758.

[3] Defend Trade Secrets Act (DTSA), 18 U.S.C. § 1836, et seq. (2016). See https://www.congress.gov/bill/114th-congress/senate-bill/1890/text.

[4] Id.

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