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Four Big Questions To Help You Understand The Federal Defend Trade Secrets Act

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On May 11, President Obama signed into law the Defend Trade Secrets Act (DTSA), effective immediately. Previously, trade secret law has consisted almost entirely of 48 states' versions of the Uniform Trade Secrets Act (UTSA), so a federal law is a significant development. Almost all businesses have at least some confidential information that would qualify as a trade secret, so it is important for businesses and their lawyers to understand what this new federal law means and does not mean. We do that here with four broad questions.

1. How does DTSA affect existing state law statutory trade secrets protection?

DTSA does not pre-empt existing state laws. Rather, it supplements those laws. Substantively, DTSA does not differ as to what is protected as a trade secret under most states' laws. DTSA incorporates an existing federal statutory definition of a trade secret that is virtually identical to most state statutes – to paraphrase, information that the owner has taken reasonable measures to keep secret and that derives value from being kept secret.

DTSA does provide a remedy not found in most state statutes. Most notably, perhaps, DTSA provides for the possible seizure of misappropriated information on an *ex parte* basis, i.e. without an adversary hearing. This is an extraordinary measure and, accordingly, is not to be granted without an extraordinary showing from the plaintiff seeking to protect its secrets. This provision was controversial at the legislative phase because of fears it could be abused. It will come only in extreme situations.

The law also provides for attorneys' fees and exemplary damages in an amount up to twice actual damages awarded. These remedies are provided under many state trade secret laws, but under DTSA they are available only if an employee against whom the damages are sought has been notified that DTSA provides immunity for disclosing a trade secret to a government official or an attorney solely for the purpose of reporting or investigating a suspected violation of law. This is discussed further below.

2. How does DTSA relate to other state law protections of company information?

Trade secrets laws are only one way that companies may protect valuable business information. For example, some information may be patented, trademarked and/or copyrighted. Companies may – in varying

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degrees in different states – subject employees to restrictive covenants such as noncompete or nonsolicitation agreements as other means of protecting important information. DTSA specifically addresses two possible implications for other measures.

First, DTSA makes it clear that it does not provide an "end around" for employers to get a *de facto* noncompete in states in which noncompetes are restricted by state law. Most notably in this regard, noncompetes are not permitted in California other than under very narrow exceptions. DTSA provides that an injunction under it cannot conflict with an applicable state law prohibiting restraints on employment.

Second, DTSA rejects what is known as the "inevitable disclosure" doctrine under trade secrets law. The inevitable disclosure doctrine – accepted in some but not all states – allows enjoining employment where an employee merely possesses trade secret information that it is believed will inevitably be disclosed at the new employer. It can provide a noncompete without a real noncompete. DTSA makes clear that it will not allow an injunction under those circumstances.

3. If you need to protect your trade secrets in court, how will DTSA affect your strategy?

This is an inherently state-specific and situation-specific question, but several things can be noted in this regard now. First, DTSA provides virtually an automatic right to take trade secret disputes to federal court. Standing alone, such disputes would get to federal court only if they involve citizens of different states and satisfy a minimum $75,000 jurisdictional amount (though almost all trade secret disputes would satisfy the latter). In many jurisdictions, litigants would prefer that sophisticated business disputes be in federal court. Likewise, if a plaintiff chooses to institute a DTSA action in state court (which it can), the defendant will be able to remove the case to federal court.

However, plaintiffs likely will want to pursue their state law remedies as well. For example, if the notice of immunity has not been given, in most states the plaintiff would have more relief available under state law. Or, a plaintiff may wish to pursue an inevitable disclosure theory under its state's law. Generally speaking, it seems that it will be customary to bring both state and federal claims – unless the parties are not citizens of different states and the plaintiff wishes to file and remain in state court.

4. What should companies do now in light of DTSA?

The default initial reaction has been: revise all of your confidentiality agreements to include the immunity language! And indeed, the statute says that you shall do that with confidentiality agreements entered into going forward. However, companies should consider this issue on an individualized basis. Do you want to flag for employees without high level trade secrets that they have immunity for taking confidential information to a lawyer? For such employees, given that you still have state law remedies, do you need the remedies that failure to give such a notice takes out of play? For some companies, it may be prudent to have a multi-tiered approach for different kinds of employees. Certainly companies should undertake this inquiry at this time.

This is also an appropriate time for every business to consider whether its trade secret protection program is adequately protecting its business

resources. (If you don't have a program, *you should*). This includes considering the above-noted revisions to any agreements, but also being sure that you have identified information that you wish to protect as trade secrets, and have taken what the courts would find are reasonable steps to keep it secret. Again, it is likely advisable to discuss with experienced counsel whether your company is adequately protecting its resources so as to be able to take advantage of the remedies of DTSA.

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