



FINALLY, FEDERAL PROTECTION OF TRADE SECRETS

By Joshua Horn

On Wednesday, May 11, 2016, the Defend Trade Secrets Act of 2016 (DTSA) became law. The DTSA provides, for the first time, uniform federal protection of trade secrets. This statute is a game changer when it comes to protecting your trade secrets, providing an exclusive federal forum and specific rights to injunctive and monetary relief. “An owner of a trade secret that is misappropriated may bring a civil action . . . if the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce.”

In the past, companies were left to the uncertainties of state trade secret laws that varied from state to state. What may be a trade secret in one state may not be in another. Attempted enforcement of trade secrets in state courts also left companies to the vagaries of the courts in the state in which you or the other guys were located. Under the DTSA, federal courts have exclusive jurisdiction over such claims. This is significant because the federal courts apply a uniform set of procedural and evidentiary rules, where such rules applicable to state courts vary from state to state and frequently within a state as well.

The DTSA also provides for significant injunctive relief that a party can obtain on an *ex parte* basis; in other words, without providing the offending

party notice of your seeking judicial relief. If you meet the evidentiary threshold under the DTSA, this law permits a court to issue an order “providing for the seizure of property necessary to prevent the propagation or dissemination of the trade secret that is the subject of the action.” A court can only enter such an order if you make a showing that you would otherwise have to make to support a claim for injunctive relief; namely, immediate irreparable harm if an injunction is not entered that cannot be compensated by monetary relief. A moving party also has to show that it is likely to establish that the information is a trade secret and that the opposing party misappropriated the trade secret by improper means or conspired to do so. You would also have to show that the offending party has possession of the trade secret, and, finally, that there is an immediate threat that the offending party will “destroy, move, hide or otherwise make [the trade secret] inaccessible to the court.”

The DTSA also specifies what must be included in an order granting such relief. Among other things, the moving party is required to post security determined by the court to pay the non-moving party damages in the event of a “wrongful or excessive seizure or wrongful or excessive attempted seizure under” the DTSA. In addition, the property

seized must remain in the custody of the court (and out of the possession of the moving and non-moving parties) until there is a full court hearing on the seizure and potential return of property to either party.

An order entered under the DTSA can also allow state or local law enforcement officials to participate in the seizure, but the moving party cannot. Local officials can also solicit the service of technical experts (unaffiliated with the moving party) to assist in the seizure. The court can also appoint a special master who can facilitate the return of unrelated property and data that may be seized as part of the overall seizure. In other words, the DTSA formalizes and legitimizes a type of self-help trade secret protection while, at the same time, excluding the moving party from that process. By doing so, the moving party avoids allegations by the responding party that the self-help was excessive in some way. By the same respect, the non-moving party can have some level of assurance that the moving party is not going to access the responding party's own trade secrets in the process and, in fact, will have that unrelated material captured in a seizure returned to the responding party.

Beyond injunctive relief, the DTSA provides for the award of damages for any of the following: (1) actual loss caused by the misappropriation; (2) unjust enrichment caused by the misappropriation not otherwise addressed by the actual loss; or (3) a reasonable royalty for the unauthorized disclosure

of the trade secret. Exemplary damages of not more than two times the actual loss may be awarded for willful and malicious misappropriation.

Although the DTSA provides companies with a hammer to enforce their trade secrets, the DTSA also punishes a party who acts inappropriately in either claiming trade secret protection or infringing with another's trade secrets. If a claim of misappropriation is made in bad faith, the prevailing responding party is entitled to its reasonable attorney's fees. Conversely, the moving prevailing party is entitled to its attorney's fees where the misappropriation was willful and malicious or where a motion to terminate an injunction is made in bad faith.

The DTSA finally provides companies with a federal right and forum in which to protect their trade secrets through injunctive relief, seizures of misappropriated trade secrets and monetary damages. Through the attorney's fee shifting provision, the DTSA provides companies with a further financial incentive to go after a company that misappropriated trade secrets in bad faith. At the same time, companies must act with caution because pursuing a claim in bad faith could result in you paying your opponent's attorney's fees.

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