

Hedge Up Alert: A Heads-Up on Employment Issues Confronting the Hedge Fund Industry

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The Defend Trade Secrets Act of 2016: Trade Secrets Receive Uniform Federal Protection

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If You Read One Thing...

- A new federal law provides a cause of action for the misappropriation of trade secrets.
- The statute provides significant new remedies, including potential royalties for the misuse of trade secrets, exemplary damages, attorneys' fees and, in extraordinary circumstances, the court-ordered seizure of property necessary to prevent the dissemination of the trade secret.
- Firms will likely need to modify their employment, independent contractor and consultant agreement templates for future use if they wish to be eligible for all of the remedies provided by the new law.

Earlier today, President Obama signed into law the Defend Trade Secrets Act of 2016 (DTSA) after it was passed by the U.S. House of Representatives on April 27 and unanimously passed by the U.S. Senate on April 4.

The DTSA amends the Economic Espionage Act (EEA) of 1996 to create a federal civil cause of action for the misappropriation of trade secrets. Previously, trade secret theft was a federal crime under the EEA, but firms wishing to seek civil damages could pursue only inconsistent state law remedies. In a world where trade secrets theft is increasingly borderless, fast-paced and cyber-related, the administration determined that a unified federal treatment of this intellectual property was critical.

Key Provisions of the DTSA

Among the DTSA's key provisions are the following:

- **Private Right of Action.** The owner of a trade secret may bring a civil action in federal court if the trade secret "is related to a product or service used in, or intended for use in, interstate or foreign commerce."
- **Damages.** The DTSA allows a successful firm to recover either (1) actual damages and unjust enrichment damages or (2) damages measured by a "reasonable

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royalty” for the unauthorized disclosure. In cases of willful and malicious misappropriation, a successful plaintiff also may recover exemplary damages of up to twice the amount of damages otherwise awarded.

- **Attorneys’ Fees.** The DTSA allows a prevailing party (plaintiff or defendant) to recover attorneys’ fees if (a) a claim of misappropriation is made in bad faith, (b) a motion to terminate an injunction is made or opposed in bad faith or (c) a trade secret was misappropriated willfully and maliciously.
- **Ex Parte Seizure.** In extraordinary circumstances, a firm can seek a court order for the seizure of property within a defendant’s possession to prevent the dissemination of a trade secret. Such an application may be made *ex parte* (i.e., without notice to the other party). Courts also have the authority to modify the discovery time limits as they deem necessary in connection with a motion for such seizure.
- **Injunctive Relief.** A court may issue an injunction under the DTSA to prevent any actual or threatened misappropriation; to require that affirmative actions be taken to protect the trade secret at issue; and, in exceptional circumstances in which an award of injunctive relief would be “inequitable,” to condition future use of the trade secret upon payment of a reasonable royalty.
- **Employee Mobility Protections.** With respect to injunctions sought against a firm’s current or former employees, the DTSA imposes certain limitations designed to protect employee mobility. First, the injunction cannot prevent an individual from entering into an employment relationship. Second, if the injunction places any conditions on employment, those conditions must be based on evidence of threatened misappropriation, and not merely evidence that the individual possesses a trade secret. Third, the injunction cannot conflict with any applicable state laws prohibiting restrictions on business or trade.
- **Whistleblower and Confidentiality Protections.** The DTSA provides immunity from criminal or civil liability for individuals who (1) confidentially share trade secrets with their attorneys or (2) provide a trade secret to government officials in the course of reporting a suspected violation of law or (3) disclose a trade secret in a document filed under seal in a legal proceeding. The statute similarly protects employees who disclose or use trade secrets in connection with whistleblower retaliation lawsuits, subject to certain restrictions.
- **Employer Notice Requirement.** To be eligible for the full panoply of remedies available under the DTSA, firms will need to ensure that applicable contracts into which they enter with employees, independent contractors and consultants include an appropriate reference to the above-noted whistleblower and confidentiality protections. This notice requirement applies to all agreements protecting trade secrets that are entered into or updated after the DTSA takes effect. Firms cannot be awarded exemplary damages or attorneys’ fees in an action against any employee, independent contractor or consultant to whom such notice was not provided.
- **Limitations Period.** A civil action may be commenced not later than three years after the date on which the misappropriation is discovered or, by the exercise of reasonable diligence, should have been discovered.

Take Away

The DTSA raises the stakes on claims alleging the misappropriation of trade secrets. Firms should promptly amend their form employment, independent contractor and consultant agreement templates to ensure that they can seek all of the remedies available under the new law. Firms also need to become even more diligent in hiring and onboarding new employees to ensure that such individuals do not import trade secrets belonging to any other person or entity into the workplace.