

April 28, 2016

Congress Passes the Defend Trade Secrets Act

On April 4, 2016, the Senate unanimously passed the Defend Trade Secrets Act of 2016 (DTSA), S. 1890, a bill to create the first federal civil remedy for trade secret misappropriation. On April 27, following consideration “under suspension of the rules,” the House of Representatives overwhelmingly voted to pass the Senate version of the DTSA, by a vote of 410-2. The White House issued a statement earlier this month that the Administration strongly supports the bill, so it is expected that President Obama will soon sign the DTSA into law.

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Preexisting Trade Secret Law

The preexisting legal landscape provides the federal district courts with original jurisdiction only over criminal trade secret theft, while civil trade secret claims have been governed exclusively by state law. For many decades, this distinction has separated the protection afforded to trade secrets from other intellectual property rights, such as patents, copyrights, and trademarks. The DTSA will thus provide greater uniformity in trade secret law, despite that a certain degree of uniformity exists due to the model Uniform Trade Secrets Act, which most states have adopted in some form. The DTSA does not preempt other laws, leaving these state laws untouched by the new bill.

New Protections Under the DTSA

The DTSA contains a controversial provision to permit *ex parte* “seizure of property necessary to prevent the propagation or dissemination of the trade secret” at issue in the litigation. Under this process, property can be seized without any notice to the party against whom the seizure is ordered. While Congress limited its scope by offering this relief only in “extraordinary circumstances,” some concerns have been raised regarding its potential ramifications. The provision, however, is not without precedent given that the Lanham Act and the Copyright Act contain similar provisions for *ex parte* seizure of counterfeit goods, 15 U.S.C. § 1116(d)(1)(A), and infringing articles, 17 U.S.C. § 503(a)(3), respectively.

The DTSA further provides a cause of action to any party that is injured by “wrongful or excessive seizure” under the statute. Thus, businesses seeking to aggressively protect their trade secrets under the DTSA should proceed cautiously until the contours of this cause of action develop more fully, particularly because the bill does not define what constitutes a “wrongful” seizure or what level of scienter will be required to impose liability. It remains to be seen how the courts will determine when a mistaken or overzealous plaintiff should be held civilly liable for such a wrongful or excessive seizure.

In addition to *ex parte* seizure, the DTSA offers other remedies, including injunctive relief; actual damages; damages for unjust enrichment; a reasonable royalty (in lieu of other damages); multiple damages where a trade secret has been “willfully and maliciously misappropriated”; and attorney’s fees under certain circumstances. Specifically, attorney’s fees are available where “bad faith” is found either (i) in the act of misappropriation or (ii) in making or opposing a motion to terminate an injunction, or where the trade secret was “willfully and maliciously misappropriated.”

The bill also contains protections for employee mobility. Any injunctive relief granted under the DTSA may not “prevent a person from entering into an employment relationship,” and any conditions placed on that person’s employment (i) cannot be based merely on information he or she knows by virtue of the former employment, and (ii) must comply with applicable state laws prohibiting restraints on the lawful practice of one’s profession, trade, or

business. These provisions are designed to strike a balance between growing concerns about the vulnerability and economic loss associated with trade secrets theft from, among other sources, foreign and cyber-based threats, and the importance of permitting lawful competition to thrive.

The statute of limitations under the DTSA is three years after the misappropriation is discovered or should have been discovered with reasonable diligence.

Key Takeaways

The DTSA is likely to be signed into law by the President. Once it becomes law, it will apply to any misappropriation “for which any act occurs on or after the date of [its] enactment.” The key features to keep in mind are that the DTSA (i) provides the federal district courts with original jurisdiction over civil trade secret claims; (ii) includes a robust *ex parte* seizure provision; (iii) provides a cause of action for wrongful seizure under that provision; and (iv) does not preempt existing federal or state laws.

To find out how the Defend Trade Secrets Act affects your interests, please contact your usual Ropes & Gray attorney or one of the following Ropes & Gray attorneys: [Jim Batchelder](#), [Peter Brody](#), [Colleen Conry](#), [Rick Gallagher](#), [Rick McCaulley](#), [Jeff Webb](#).