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President Obama Signs the Defend Trade Secrets Act into Law

On May 11, 2016, the President signed the Defend Trade Secrets Act of 2016 (DTSA) into law, creating the first federal civil remedy for trade secret misappropriation. Last month, the Senate unanimously passed the bill, S. 1890, and the House of Representatives overwhelmingly voted to pass it by a vote of 410-2. The new law is designed to better shield companies against the economic losses suffered from trade secret theft.

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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 law.

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

Protections for Employee Mobility

While the DTSA authorizes injunctive relief “to prevent any actual or threatened misappropriation,” such relief may not entirely “prevent a person from entering into an employment relationship.” Further, any conditions placed on a person’s employment in order to protect trade secrets must be based on “evidence of threatened misappropriation and not merely on the information the person knows,” suggesting that courts will not place limitations on an individual’s employment based solely on the presumption that the individual will “inevitably disclose” trade secret information to a new employer.

The DTSA also specifically provides that the injunctive relief it authorizes must not conflict with any applicable state law prohibiting restraints on the lawful practice of one’s profession, trade, or business. Such state laws would include, for example, California’s longstanding policy against enforcing non-competition agreements and other restrictive covenants.

These provisions in the DTSA 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.

Whistleblower Protection & Notice Requirements

The DTSA includes a notable carve-out to the protection it provides for trade secrets, immunizing whistleblowers and litigants who disclose trade secrets under certain circumstances. Specifically, individuals who disclose trade secrets in confidence to government officials for the purpose of reporting or investigating a suspected violation of law may not be held civilly or criminally liable for their disclosure. This is true whether the disclosure happens directly, or through an attorney. The DTSA also immunizes anyone who discloses a trade secret in any court filing, so long as the court filing is made under seal.

Starting immediately, and in all agreements with employees or contractors governing trade secrets or confidential information, employers must provide notice of these statutory protections for whistleblowers and other litigants. Failure to provide employees and contractors with this notice is a violation of the DTSA and will prevent employers from recovering exemplary damages or attorneys’ fees in any action against a person to whom notice was not provided. The statute does not require the amendment of agreements entered into before May 11, 2016.

Key Takeaways

The DTSA applies to trade secret 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; (iv) does not preempt existing federal or state laws; and (v) requires employers, starting immediately, to add notice of whistleblower protections to all new agreements governing trade secrets and confidential information, whether with employees or contractors.

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](#).