Defend Trade Secrets Act Set to Become Law

By Clifford R. Atlas and Erik J. Winton

April 28, 2016

For the first time, there will be a federal private right of action for misappropriation of trade secrets. The Defend Trade Secrets Act ("DTSA"), passed by both houses of Congress, is headed to President Barack Obama for his signature and his office has stated it "strongly supports" the legislation. The DTSA will become effective upon the President's signature and will apply to any misappropriation of trade secrets that occurs on or after the date it is signed by the President.

On April 4, the U.S. Senate passed the DTSA by a vote of 87-0. In a procedural maneuver, the Senate bill was presented to the House for a vote on April 27, and it passed by a vote of 410-2. For additional information, see our articles, Defend Trade Secrets Act Advances: Getting Closer to Law? and Defend Trade Secrets Act — Congress Tries Again.

Companies that are victims of trade-secret theft will have an alternative to state law (and thus, to the state courts in which cases often are brought) to bring a civil action to enjoin violations of trade-secret theft and to seek a remedy for violations that already have occurred.

State Law

Although there are similarities between the DTSA and state trade secrets acts, the uncertainty of protection for trade secrets from one state to another, as well as the chilly reception in some state courts to out-of-state plaintiff companies, created bi-partisan support for the DTSA. With its federal forum and federal remedy, the DTSA, over time, will create a nationwide body of law and provide a degree of predictability to company litigants.

The DTSA does not preempt state trade secrets laws, and state law and state courts will remain an option for victims of trade secret theft. Companies still will need to consider whether the state law and court is preferable to the DTSA and federal court. However, the DTSA will help protect trade secrets across multiple jurisdictions. Even companies with operations in only one state can benefit significantly from access to federal courts and federal judges under the DTSA, particularly if the relevant state courts have been slow to respond, or even hostile, to trade-secrets litigation. Moreover, the DTSA does not prevent companies from having their cases heard in federal court alongside parallel, "pendent" claims under any state trade secret act — in effect, favorable state trade secret law may accompany federal DTSA claims in the same case.

Inevitable Disclosure

One important distinction between the DTSA and some state trade secret laws may be the potential availability of the "inevitable disclosure" doctrine under state law in some circumstances. The DTSA expressly rejects the "inevitable disclosure" doctrine and precludes a court from enjoining a person from entering into an employment relationship. The Act further requires evidence of threatened misappropriation rather than merely information that the person knows.

Seizure Orders

The DTSA's most significant substantive addition to trade secret protection, and certainly its most controversial, is its authorization of *ex parte* seizure orders — a provision that, since the first iteration of the DTSA in 2012, had derailed passage of the legislation. The DTSA strictly limits the ability of a court to issue a seizure order. Such an order must be the "narrowest" necessary to achieve the purpose of the order, according to the Senate bill.

Further, the circumstances under which such an order can be issued also are limited. Filing a complaint does not mean a seizure order will be automatically, even likely, issued; fairly substantial proof will be required to obtain this extraordinary interim remedy. In addition, a court can impose significant sanctions on a plaintiff who wrongfully obtains an order to seize another's property.

Notice

The DTSA imposes conditions on a successful plaintiff's recovery of attorneys' fees and exemplary damages. Attorneys' fees and exemplary damages are not recoverable unless the employer has provided

Meet the Authors

Clifford R. Atlas

Principal
New York Metro
New York City 212-545-4017
Email

Erik J. Winton

Principal
Boston 617-367-0025
Email

Practices

Restrictive Covenants, Trade Secrets and Unfair Competition

the defendant employee, consultant, or contractor with notice of certain immunity from criminal and civil prosecution granted by the DTSA to persons who disclose trade secrets by the means provided by the DTSA (principally, to government agencies and under seal in court proceedings).

The notice must be in any contract or agreement that governs the use of trade secrets or confidential information. It applies to contracts and agreements that are entered into, or updated, after enactment of the DTSA. Therefore, all new non-disclosure agreements, confidentiality agreements, employment agreements, consulting agreements, and independent (or other) contractor agreements containing non-disclosure provisions must include the required notice. Failure to include the notice may preclude availability of a significant financial recovery.

***

Significant, too, is what DTSA does not change, in particular, the need to adhere to best practices in protecting trade secrets. The DTSA does not eliminate the need for companies to identify their trade secrets, protect them against inappropriate use or disclosure, and establish the steps taken to maintain their secrecy. For example, documents containing trade secrets should be labeled as confidential, their distribution should be limited, they should be maintained in secure areas (*e.g.,* locked cabinets), and individuals who are privy to such secrets should be trained on the nature of that information and how to safeguard it. Similarly, access to computer files containing such information should be restricted, and those with access should be trained on the files' confidentiality. Following such steps not only can limit the risk of inappropriate use or disclosure, but also may prove invaluable when seeking a court's protection for the trade secrets involved. All this will remain true under the DTSA.

For companies with multi-state operations, and even for companies with single-state operations but whose trade secrets are portable across state lines (by hard copy documents or electronically), the DTSA affords a new weapon to protect trade secrets nationwide. In addition, because trade secrets litigation often involves violations of non-competition or non-solicitation agreements, such claims also may be brought in federal court in tandem with the alleged DTSA violation. Thus, the DTSA may provide a new, meaningful alternative to state court litigation when seeking to protect trade secrets and related unfair competition. Finally, all agreements with non-disclosure provisions should include the notice provision required by the DTSA.

Jackson Lewis attorneys are available to answer inquiries regarding this and other workplace developments and assist with trade secrets protection.