

Defend Trade Secrets Act: A New Era in Intellectual Property Protection

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On May 11, 2016, President Obama signed the Defend Trade Secrets Act of 2016 (“DTSA”), creating a federal private civil action for the misappropriation of trade secrets. The DTSA does not preempt state law but provides an additional forum for relief. Among other remedies, the DTSA provides for exemplary damages and ex parte seizures under certain extraordinary circumstances.

Overview

The DTSA allows the owner of a trade secret to bring a civil action within three years of when it learned, or reasonably should have learned, of the misappropriation.¹ The definitions of “misappropriation” and “trade secret” under the DTSA are similar to those under the Uniform Trade Secret Act, which provides the basis for most state trade secret legislation. For an action to arise under the DTSA, the trade secret must be related to a product or service used in, or intended for use in, interstate or foreign commerce. The jurisdictional nexus to interstate or foreign commerce mirrors the existing language required for the Economic Espionage Act of 1996.

Damages and attorney’s fees

Under the DTSA, the trade secret owner may recover damages for its actual losses plus damages for unjust enrichment caused by the misappropriation.² Alternatively, the trade secret owner may recover a reasonable royalty.³ If the trade secret was wilfully and maliciously misappropriated, a court may double the damages awarded⁴ and also award attorney’s fees.⁵

Ex parte seizures

The DTSA allows courts, upon an ex parte application by the trade secret owner, to order seizure of property by law enforcement officials that is necessary “to prevent the propagation or dissemination of the trade secret.”⁶

¹ Defend Trade Secrets Act of 2016, S. 1890, 114th Cong. §§ 2(b)(1), 2(d) (2016).

² *Id.* § 2(b)(3)(B).

³ *Id.*

⁴ *Id.* § 2(b)(3)(C).

⁵ *Id.* § 2(b)(3)(D).

⁶ *Id.* § 2(b)(2)(A)(i).

Such ex parte seizure orders may only be granted “in extraordinary circumstances”⁷ where it appears from “specific facts” that:⁸

- a temporary restraining order issued pursuant to Federal Rule of Civil Procedure 65 would be inadequate because the party against whom the order would issue would evade, avoid or otherwise not comply with such a restraining order;
- immediate and irreparable injury would occur if seizure is not ordered;
- the harm to the applicant of denying the order outweighs the harm to the legitimate interests of the person against whom the seizure is ordered and substantially outweighs the harm to any third parties;
- the applicant is likely to succeed in showing that the person against whom the seizure is ordered misappropriated the trade secret by improper means, or conspired to misappropriate the trade secret by improper means;
- the person against whom seizure would be ordered has actual possession of the trade secret and any property to be seized;
- the matter to be seized is described with reasonable particularity, along with the location where the matter would be seized;
- the person against whom the seizure would be ordered, or those working in concert with that person, would destroy, move, hide or otherwise make such matter inaccessible if the applicant were to provide that person notice; and
- the applicant has not publicized the requested seizure.

The law also seeks to protect the seized property from disclosure by prohibiting access to the seized property both by the applicant and the party against whom the order has been issued until the parties have an opportunity to be heard in court.⁹ The court must hold a hearing within seven days of the order being issued unless the party against whom seizure is ordered and others harmed by the order consents to another date.¹⁰ The person obtaining the order must provide security determined adequate by the court for the payment of the damages that any person may be entitled to recover as a result of wrongful and excessive seizure.¹¹ A person who suffers damage because of a wrongful or excessive seizure may recover damages, including punitive damages, and reasonable attorney’s fees.¹²

Injunctions

For employers seeking injunctions against employees in possession of trade secrets, the DTSA requires a showing of actual or threatened misappropriation¹³ rather than merely the possession of the relevant information, and prohibits the federal court from “prevent[ing] a person from entering into an employment relationship.”¹⁴ The injunction may not prevent a person from entering into an employment relationship which is in “conflict with an applicable State law prohibiting restraints on the practice of a lawful profession, trade, or business.”¹⁵ Thus, state-specific laws on employee mobility likely will remain in effect.

⁷ *Id.*

⁸ *Id.* § 2(b)(2)(A)(ii).

⁹ *Id.* § 2(b)(2)(B)(iii)(I).

¹⁰ *Id.* § 2(b)(2)(B)(v).

¹¹ *Id.* § 2(b)(2)(B)(vi).

¹² *Id.* § 2(b)(2)(G).

¹³ *Id.* § 2(b)(3)(A).

¹⁴ *Id.*

¹⁵ *Id.*

Whistle-blower immunity and notice by employers

The DTSA provides employees immunity against criminal and civil liabilities under any federal and state trade secret laws, for disclosures made to government officials or to an attorney for the sole purpose of reporting or investigating a violation of the law or if it is filed under seal in a lawsuit.¹⁶

The law also requires employers to notify employees of such immunity in any contract or agreement that governs the use of a trade secret or confidential information.¹⁷ Employees include individuals working as consultants or contractors.¹⁸ If the employer fails to provide notice, then it may not recover exemplary damages or attorney's fees in an action against the employee.¹⁹ The employer may comply with the notice provision by cross-referencing policy documents concerning such protections that have been provided to the employee.

Conclusion

The DTSA provides a long-awaited federal forum and remedy for trade secret disputes. It likely will have far-reaching consequences, and companies should evaluate their policies and litigation options in light of the new law.

One immediate step is for companies to give notice of the whistle-blower immunity provisions to employees and contractors who currently are subject to nondisclosure obligations. In theory, this encompasses employees who do not have direct access to the trade secrets, but nonetheless have entered into nondisclosure agreements with the trade secret holder. While the DTSA does not specify the precise content of such notices, failure to provide them ultimately may limit the trade secret owner's ability to recover the full range of remedies available under the DTSA.

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¹⁶ *Id.* § 7.

¹⁷ *Id.*

¹⁸ *Id.*

¹⁹ *Id.*