

Defend Trade Secrets Act Passes Congress

With President Obama's signature expected, DTSA will allow for new federal civil suits, ex parte seizures, and whistleblower protections.

After unanimously passing the Senate earlier this month, the Defend Trade Secrets Act (DTSA) yesterday passed the House with overwhelming bipartisan support in a 410-2 vote. The Obama administration “strongly supports” the bill and the President is expected to sign it.¹ The new law will allow businesses — for the first time — to file civil lawsuits under federal law for trade secret misappropriation.

The DTSA will create a single body of federal law that should be more predictable and uniform than the patchwork of state laws that have long governed the protection of trade secrets. The new law will not displace any of the state laws currently in place, but will provide a new vehicle for trade secret owners to protect their intangible assets. Litigants will be able to file suits in federal court, which many observers believe are better suited than state courts to handling complex civil litigation that deals with technical facts and may have international implications. The broad discovery tools available in federal court, such as nationwide subpoena power, will be available in any action in which a federal trade secret claim is brought.

One of the DTSA's most striking and controversial features is that it allows for ex parte seizure orders. A victim of trade secret theft can ask a court to order federal marshals to seize “property necessary to prevent the propagation or dissemination” of the stolen trade secret.² Such a seizure would be carried out without notice to the accused thief.³ The drafters felt this relief was necessary because trade secrets are unique in their dependency on secrecy, and the harm from misappropriation may be mitigated if swift action is taken before a stolen trade secret is widely disseminated.⁴ However, ex parte seizures will be available only in “extraordinary circumstances,” such as when an alleged thief would destroy or hide a stolen trade secret if given advance notice of the proceedings.⁵ Further, victims of a wrongful seizure will be entitled the same relief as available for an improper seizure under trademark law: a damages award, punitive damages for bad faith and attorneys' fees.⁶

The DTSA also will provide protection for certain “whistleblower” employees, and will obligate employers to notify their workers of the various immunities available under the new law.⁷ Failing to do so could deprive an employer of its right to punitive damages or attorneys' fees in an action against that employee.⁸

Next Steps

Businesses can prepare for the new law now by revisiting their confidentiality, hiring, and consulting agreements, and by systematically inventorying and safeguarding their confidential information that qualifies for trade secret protection.

Recent studies estimate that trade secret theft costs American businesses between US\$300 billion and US\$500 billion annually.⁹ Businesses across an array of industries have voiced their support for the new legislation, which will protect trade secrets as complex as computer algorithms or as simple as customer lists.¹⁰ In response to this widespread political and popular support, the DTSA will provide trade secret owners with a new federal trade secret cause of action, new remedies and broader tools with which to enforce some of their most valuable intellectual property rights.

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Endnotes

¹ See https://www.whitehouse.gov/sites/default/files/omb/legislative/sap/114/saps1890s_20160404.pdf.

² The Defend Trade Secrets Act, S. 1890, 114th Cong. § 2 (2016).

³ *Id.*

⁴ Senators Hatch and Coons, Colloquy on the Defend Trade Secrets Act, at 4, http://www.hatch.senate.gov/public/?_cache/files/a78f2d4c-1556-44fc-b3aa-f2b11d58b929/Hatch-Coons%20Trade%20Secrets%20Colloquy.%20October%208.%202015.pdf.

⁵ *Supra* note 2, § 2.

⁶ *Id.* (allowing the same relief as provided in 15 U.S.C. 1116(d)(11)).

⁷ *Id.* § 7.

⁸ *Id.*

⁹ S. Rep. No. 114-220, at 2 (2016).

¹⁰ See <http://www.reuters.com/article/us-usa-trade-secrets-idUSKCN0X11Y3>; <http://www.ipwatchdog.com/2016/04/04/obama-administration-supports-defend-trade-secrets-act/id=67993/>; <http://www.bloomberg.com/politics/articles/2016-04-04/senate-set-to-pass-bipartisan-measure-to-protect-trade-secrets>.