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Defend Trade Secrets Act Passes House, Soon to Become Law

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Billions of dollars in losses are attributed to trade secret theft each year. In response, and with vast bipartisan support, Congress passed the Defend Trade Secrets Act (DTSA) on April 27, 2016. The President is expected to sign the DTSA soon, and once enacted, the DTSA will provide new businesses with an enforcement tool against misappropriation of trade secrets. Trade secret owners will be able to use this new enforcement tool to file suit in federal court without having to register their trade secret, as required for patents, trademarks and copyrights.

“An owner of a trade secret that is misappropriated may bring a civil action under this subsection if the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce.” 18 USC 1835(b)(1)

◆ DTSA will Coexist with State Laws

Until now, enforcement of trade secret misappropriation was limited to state law. Although most states adopted the Uniform Trade Secrets Act (UTSA), there is variation. Since the DTSA does not preempt state law, the rights available under the DTSA will coexist with state trade secret laws. The ability for trade secret owners to access federal courts, without having to rely on diversity, opens the door to broader discovery tools and nationwide subpoena power. Supplemental jurisdiction may also be available to join state claims in federal court. DTSA applies to any misappropriations that occur after the DTSA is signed by the President; any previous misappropriation would be protectable only under state trade secret law.

◆ Uniform Federal Law under the DTSA

The DTSA is widely expected to create a single body of federal law that is predictable and uniform. As with any new enforcement tool, in achieving the predictable and uniform outcome there will be some uncertainties in how the DTSA will be applied. For example, in trade secret litigation, the timing of trade secret disclosure may impact the proceeding, as well as the procedural safeguards for protecting such information.

◆ Applies to Foreign Trade Secret Theft

The DTSA also creates the ability to seek remedies for trade secret theft occurring outside of the United States. In addition to the federal courts, victims of trade secret theft may also bring claims before the International Trade Commission (ITC).

◆ Valuable New Tool: Ex Parte Seizure Orders

One of the DTSA's most prominent enforcement tools is the ability to seek an *ex parte* seizure order under “extraordinary circumstances.” Without any notice to the accused, victims of trade secret theft can request

that a federal court orders federal marshals to seize “property necessary to prevent the propagation or dissemination” of the stolen trade secret. “Extraordinary circumstances” apply when an alleged thief would destroy or hide a stolen trade secret if given advance notice of the proceedings. The DTSA directs courts to narrowly construe seizure orders and creates several requirements to obtain an seizure order, including that the plaintiff posts bond. One consideration on ex parte seizure orders is that the wrongfully accused can seek relief similar to improper seizures under trademark law: damages, including punitive damages, and attorney fees.

◆ **Actions for Trade Secret Owners: Safeguard Secrets and Review Agreements**

With the DTSA enactment anticipated, every trade secret owner should review their procedures for identifying and safeguarding information that qualifies for trade secret protection. In addition, agreements related to confidentiality, employment, and consulting agreements should be revisited to ensure that these agreements conform to the DTSA requirements. For example, to protect whistleblowers, the DTSA creates an immunity provision and employers are required to provide notice of this immunity to employees in employment agreements.

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