

Congress Passes Sweeping New Legislation to Protect Trade Secrets

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Late yesterday, in a departure from the partisan gridlock that has gripped Washington, the House of Representatives joined the Senate in passing a sweeping new statute to protect trade secrets. The legislation, which President Obama strongly supported and is expected to sign within days, creates a new federal civil cause of action for trade secret theft.

The speed with which Congress passed this legislation – entitled the Defend Trade Secrets Act of 2016 (DTSA) – reflects the increasing importance of trade secrets to American business. The ascendancy of trade secrets as a form of intellectual property protection has occurred against the backdrop of upheaval and uncertainty in the patent system. Patent owners have had to contend with new challenges to the validity of patents as well as a host of recent Supreme Court decisions limiting the types of inventions and discoveries eligible for patent protection.

Even as trade secrets have become more important, they have also grown more vulnerable. Like most critical business information, trade secrets are often stored electronically – and thus are mobile and potentially subject to theft. Before passage of the DTSA, victims of trade secret theft could only bring civil actions under state trade secret laws, which varied widely even though many states had passed some version of the Uniform Trade Secrets Act (UTSA). The Economic Espionage Act of 1996 criminalized certain kinds of trade secret theft but did not create any mechanism for civil lawsuits.

The DTSA defines trade secrets consistently with the UTSA, and it provides a federal civil cause of action that will be available in a broad variety of trade secret cases. (As to breadth, the DTSA applies to any trade secrets “related to a product or service used in or intended for use in, interstate or foreign commerce.”) The availability of a federal cause of action should streamline interstate trade secret disputes by reducing the importance of the skirmishes that occur when it is unclear which state’s trade secret law will apply. The DTSA does not preempt state trade secret actions, however, and so in many cases, the confusion originating from the patchwork of differing state laws will still arise.

In addition to creating a federal civil cause of action, the DTSA also provides a powerful new tool for trade secret owners: an *ex parte* seizure proceeding to prevent the dissemination of misappropriated trade secrets. A trade secret owner can obtain such a seizure order only under “extraordinary circumstances.” The owner must show, among other things, that the accused party has actual possession of the trade secret and that an immediate and irreparable injury will occur absent a seizure. A seizure order must minimize disruption not only to the party accused of misappropriating the trade secret, but also to third parties. Seized materials will be taken into the custody of the court and secured as necessary.

Companies should expect that the DTSA’s provisions regarding the seizure and court custody of trade secrets will generate vigorous disputes. Parties accused of misappropriating trade secrets may file actions for damage caused by wrongful seizure and demand return of information that has been improperly seized along with trade secret information. Determining whether information has been improperly seized could be time-consuming and expensive.

The DTSA also contains provisions aimed to protect employee mobility. In particular, it restricts the availability of injunctive relief to “prevent a person from entering into an employment relationship,” and it also provides that if an injunction is to place conditions on a person’s employment, the restrictions “shall be based on evidence of threatened misappropriation and not merely on the information the person knows.” Finally, the DTSA prohibits issuing an injunction that “conflict[s] with an applicable State law prohibiting restraints on the practice of a lawful profession, trade, or business.”

Lastly, the DTSA contains provisions designed to encourage whistleblowing. It grants immunity to parties who disclose a trade secret as part of an anti-retaliation lawsuit and to parties who disclose a trade secret to the government or an attorney to report wrongdoing.

The whistleblower protection portion of the statute also contains a hidden pitfall for employers: they are *required* to “provide notice of the immunity set forth in this subsection *in any contract or agreement with an employee that governs the use of a trade secret or other confidential information.*” This requirement will be effective as soon as President Obama signs the DTSA. Thus, an immediate action item for employers is to update employee contracts, policy manuals, and other documents to conform with this new requirement. An employer that fails to comply will forfeit recovery of exemplary damages and attorneys’ fees under the Act in an action brought against an employee who was not given the requisite notice.

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