

# PUBLICATION

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## Defend Trade Secrets Act To Be Signed Into Law

April 29, 2016

On April 27, 2016, the U.S. House of Representatives approved the Defend Trade Secrets Act (DTSA) by a vote of 410 to 2. As the DTSA has already passed the Senate by an 87 to 0 vote, the bill now heads to President Obama to be signed into law. The Obama Administration has voiced strong support for the DTSA, and the passage of the bill appears certain.

The bill represents a monumental shift in trade secrets law, which has long been governed at the state level through adoption of the Uniform Trade Secrets Act (UTSA). While most state trade secret laws are substantively similar, subtle variations in the laws can make enforcement in different states challenging. The DTSA now creates a federal, private civil cause of action for trade secret misappropriation that will be available in conjunction with a state law cause of action for misappropriation of trade secrets, as the DTSA specifically states that it does not preempt the states' trade secret laws. In this manner, the DTSA will be similar to the Lanham Act in how it interacts with state trademark laws.

The most controversial aspect of the DTSA regards a new remedy offered under the law that is not found in the UTSA. While the standard remedies of monetary and injunctive relief are included, the DTSA also allows, in "extraordinary circumstances," courts to issue ex-parte orders to seize misappropriated trade secrets to prevent further dissemination or destruction of property. The concern of many public and private companies has been whether this could lead to opportunistic plaintiffs seeking the seizure of a party's manufacturing plant or research and development lab as a means to leverage settlement in a dispute. To assuage those concerns, lawmakers added certain provisions specifically requiring that a court finds it "clearly appear[ant]" that:

- no other adequate relief is available;
- immediate and irreparable injury will occur if such seizure is not ordered;
- the harm to the trade secret owner outweighs the harm to the party whose property is being seized;
- the harm to the trade secret owner "substantially outweighs" the harm to any third parties (for example, a customer awaiting product from a manufacturing plant);
- the trade secret owner is likely to succeed in proving the existence of a trade secret and misappropriation;
- the trade secret owner has described with "reasonable particularity" the matter to be seized and its location;
- the accused party would destroy, move, or hide the matter if the case were to proceed normally; and
- the trade secret owner has not publicized the requested seizure.

Trade secrets owners seeking ex-parte seizure will need to seriously consider whether such an extreme remedy is merited, as there is risk for a trade secrets owner that abuses the provision. Specifically, a party whose property is seized may seek damages in the event of a "wrongful or excessive seizure." The DTSA also requires the trade secrets owner to post a bond in an amount to be determined by the court in order to cover such damages if the seizure is found to have been unjustified or unwarranted.

Another variation between the UTSA and the DTSA is that the DTSA also provides immunity from a trade secrets misappropriation claim for whistleblowers that disclose a company's trade secrets when reporting a suspected violation of law. The new act requires that companies provide notice of such immunity in an

employee contract, non-disclosure agreement, or confidentiality agreement. The failure of a company to provide such notice in an employee's contract prevents the company from recovering exemplary damages or attorneys' fees under the DTSA in action against that employee. The cost of companies updating all employment agreements may not merit the benefit of exemplary damages or attorneys' fees under the new federal act when a trade secret owner could still recover such damages under a state's UTSA. Lastly, the act omits the inevitable disclosure doctrine and, in fact, explicitly states that a court may not "prevent a person from entering into an employment relationship." How this language interacts with states that have adopted the inevitable disclosure doctrine will be one of the many interesting developments in the wake of the DTSA.

The DTSA provides trade secret law with more bite, but does come with some trade-offs. While companies will be able to follow a clear and consistent path to protecting company secrets and enforcing trade secrets misappropriation across state lines, the law's requirements may not be worth the cost of implementation. Baker Donelson will continue to monitor the development of the DTSA. If you have any questions or want to discuss strategies to best utilize the DTSA, please contact any of the attorneys in the Firm's Intellectual Property Group.