

“Defend Trade Secrets Act” – How Will This New Law Affect Your Business?

May 2, 2016

With a near unanimous (410-2) vote on April 27, 2016, the House passed the “Defend Trade Secrets Act” (“DTSA”). Having already been passed by the Senate (87-0), the legislation advances to President Obama, who has signaled that he will sign the bill into law. The law is drafted to go into effect on the day of its enactment, and will apply to misappropriation occurring on or after that date.

Although independent trade secret misappropriation claims have been primarily litigated in state courts, with the implementation of the DTSA, businesses will now have available a federal cause of action. However, the DTSA will not preempt state laws, leaving open the possibility for federal and state misappropriation claims to be brought in the same federal action.

The DTSA states in relevant part:

[a]n 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.

(To be codified at 18 U.S.C. § 1836(b)).

The DTSA defines a trade secret in a manner consistent with most state laws:

all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if—(A) the owner thereof has taken reasonable measures to keep such information secret; and (B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, the another person who can obtain economic value from the disclosure or use of the information.

The DTSA also defines misappropriation consistently with most state laws, stating that the act must involve acquiring a trade secret through improper means.



In addition to the traditional remedies provided by state laws, such as monetary damages and injunctive relief, the DTSA authorizes courts in “extraordinary circumstances” to issue a seizure order that can be enforced by federal, state, or local law enforcement, without notice to the defendant. To prevent abuse of seizure orders, the DTSA contains a list of requirements that must be met before a court can issue such an order. The DTSA also provides for the imposition of a reasonable royalty for ongoing misappropriation if an injunction is “inequitable.” The way courts interpret these provisions will be something to monitor as businesses consider whether to file a misappropriation action in federal or state court.

With trade secret misappropriation claims moving to federal court, related claims such as breach of employment contracts will likely follow. In order to prevent employers from using the DTSA to prevent employees from unreasonably moving to a competitor, the DTSA contains provisions that guide courts away from injunctive relief that would prevent a former employee from joining a competitor based on the information known by the employee. Instead, any such injunction must be based on a threat of actual trade secret misappropriation. Further, the DTSA provides that any injunction against a former employee must not conflict with any state law that “prohibit[s] restraints on the practice of a lawful profession, trade, or business.”

The DTSA also contains a public policy provision that provides immunity to “whistleblowers” from DTSA claims if an employee discloses a company’s trade secrets when reporting a violation of law. The DTSA requires that companies provide notice of this immunity in employment contracts, non-disclosure agreements, and related agreements. The failure to provide notice bars companies from recovering exemplary damages or attorneys’ fees under the DTSA. **Companies should thus consider including such notices upon the DTSA becoming effective.**

The DTSA will provide a potentially powerful new cause of action in misappropriation cases. Its use should be considered carefully along with traditional state causes of action. Womble Carlyle will continue to monitor the implementation of the DTSA. For assistance with updating employment contracts and other agreements to include the “whistleblower” notice, please contact one of the client alert authors.

Contact Information

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