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Client Alert: President Obama Signs the Federal Trade Secrets Act Into Law

Today, President Obama signed into law the Defend Trade Secrets Act of 2016 (DTSA). The White House had previously expressed support for this law by stating that “Effective protection of trade secrets promotes innovation that is the engine of the Nation’s economy and minimizes threats to American businesses, the U.S. economy, and national security interests.”

The most significant aspect of DTSA is to provide a federal cause of action for trade secret theft, which had previously been only a matter of state law. However, the new federal statute does not preempt state law claims, thus allowing trade secret owners to also enforce their rights under state common law or statutes which, in most states, follow the Uniform Trade Secrets Act. The new Act also does not preclude other claims based on the same facts, such as claims asserting infringement or unfair competition in relation to other recognized forms of intellectual property or rights. This aspect differs from the Uniform Trade Secrets Act enacted in many states.

The new legislation amends the Economic Espionage Act, which had been limited to criminal enforcement of trade secret theft. This change allows private individuals and companies to sue in federal court for trade secret misappropriation. By opening civil filings in federal courts to trade secret owners, the DTSA is believed to provide a better avenue for enforcement, because federal courts are more accustomed to dealing with issues such as ex

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parte seizures, interstate and international discovery, and difficult issues over injunctive relief. It is also believed that the DTSA will lead to a single body of legal precedent that will minimize the impact of variations between states.

The DTSA is an expansion of intellectual property protection for trade secrets, intended to address differences between state laws and inexperience of state courts with trade secret enforcement, and to help prevent propagation of a misappropriated trade secret. A central feature of the DTSA allows for *ex parte* seizures during a time when immediate action is needed to halt proliferation or use of trade secrets. However, as the proposed statute evolved to its current form, changes were made to limit such relief to extraordinary circumstances. The Act further specifies that the court must take custody of the seized materials, a hearing must be held within seven days, and a party allegedly harmed by the seizure order may move to dissolve or modify the order.

Another significant aspect of the DTSA is to provide protections for persons who disclose trade secrets in whistle-blower cases, providing immunity from civil liability for those who disclose trade secrets when reporting on a suspected violation of law. Absent such immunity, potential whistleblowers would otherwise be liable under the Act for any acquisition, disclosure or use of trade secrets.

Notably, and as a corollary to the immunity provisions, the DTSA also imposes new documentation requirements on all employers who use confidentiality agreements or other restrictive covenants to safeguard corporate information. Specifically, the DTSA requires that in "any contract or agreement with an employee that governs the use of a trade secret or other confidential information" the employer must "provide notice of the immunity" defined in the DTSA for employees, as noted

above. Importantly, the notification requirement applies very broadly to the entire workforce, because “employee” is defined to include contractors and consultants also. Employers who fail to provide the requisite notice in their agreements and policies are penalized, as the DTSA expressly eliminates those employers’ rights to seek exemplary damages and/or recoup attorneys’ fees when pursuing a trade secret claim involving an employee who did not receive the proper notice. The DTSA allows for the employer’s notice to be cross-referenced from appropriate corporate policies, so long as those policies are incorporated properly into the employees’ trade secret and confidentiality agreements. Employers must review their trade secret and confidentiality agreements – and related corporate policies – to ensure technical compliance with the DTSA notice mandates going forward, in order to realize the maximum benefits and protections that the DTSA now affords.

The DTSA is a significant development in providing protections for those doing business in the United States. As with other recent changes in the U.S. (including the 2013 amendment of the federal criminal law to enhance fines for trade secret theft and the 2012 Theft of Trade Secret Clarification Act, which addressed situations in which the trade secrets are used in a process), the DTSA solidifies protection of valuable business information for companies, including the ability to enforce against international threats. Japan and Europe recently enacted similar changes. Japan very recently amended its Unfair Competition Prevention Act to close loopholes in the enforcement of trade secret rights of a manufacturing process and to prevent attempted misappropriation of trade secrets. In Europe, the 2015 directive devised by agreement of European Parliament and Counsel provides similar uniformity in specifying what is considered misappropriation of a trade secret and injunctive relief available.



The DTSA is likely to be the last piece of legislation that President Obama will sign into law following his 2013 launch of the Administration's Strategy to Mitigate the Theft of U.S. Trade Secrets, which stated:

The DTSA passed in the Senate by unanimous vote, quickly passed in the House of Representatives with only two opposing votes, and has now been signed into law in short order. The U.S. is clearly in unison with that strategy, resulting in the long-awaited federal statute providing a civil cause of action and remedies for trade secret misappropriation.