



CONGRESS PASSES DEFEND TRADE SECRETS ACT

Trade secret theft is estimated to cost the United States economy over \$300 billion annually, and perhaps as much as \$480 billion.¹ Yet, unlike other forms of intellectual property, such as patents, copyrights and trademarks, there is no federal law that allows victims of trade secret theft to seek redress in federal courts. That is about to change. On April 27, 2016, the House of Representatives passed the Defend Trade Secrets Act of 2016 (the “DTSA”), which provides a federal cause of action for misappropriation of trade secrets. The DTSA has already passed the Senate, and the Obama administration, which has strongly supported the legislation, is widely expected to sign the bill into law.

1. Access to Federal Courts

The DTSA creates a federal cause of action for misappropriation of a “trade secret [that] is related to a product or service used in, or intended for use in, interstate or foreign commerce.”² Currently, a claim for trade secret misappropriation must be brought under state law. If the DTSA is enacted, litigants will now have access to federal courts, which supporters of the DTSA view as better equipped to handle the complexities of trade secret litigation due to their experience with other complex intellectual property disputes.³ Supporters also argue that access to federal courts will eliminate jurisdictional complications that arise in trade secret enforcement actions having national and international dimensions.⁴

The DTSA’s substantive and remedial provisions are similar to those in the Uniform Trade Secrets Act (the “UTSA”), which has been adopted, in whole or in part, in 47 States.⁵ For example, the DTSA adopts the UTSA’s definitions of “trade secret,” “misappropriation,” and “improper means.”⁶ The DTSA’s remedial provisions also draw upon the UTSA. Both the DTSA and the UTSA provide for the award of exemplary damages of up to twice the compensatory damages in cases of willful and malicious misappropriation.⁷ Both also provide for the prevailing party to recover attorney’s fees where the losing party either litigated in bad faith or willfully and maliciously misappropriated trade secrets.⁸ And both permit the recovery of a reasonable royalty in certain cases.⁹ Despite these similarities, the DTSA departs from the UTSA in several respects.

¹ S. Rep. No. 114-220, at 2.

² DTSA, § 2(a), to be codified as 18 U.S.C. § 1836(b)(1).

³ *Protecting Trade Secrets: the Impact of Trade Secret Theft on American Competitiveness and Potential Solutions to Remedy This Harm, Before the Senate Comm. On the Judiciary*, 114th Cong. (2015) (statement of Ms. Karen Cochran, Chief Intellectual Property Counsel, E.I. DuPont de Nemours and Company), available at <http://www.judiciary.senate.gov/imo/media/doc/12-02-15%20Cochran%20Testimony.pdf>.

⁴ *See id.*

⁵ S. Rep. No. 114-220, at 2, 10.

⁶ S. Rep. No. 114-220, at 10.

⁷ *See* DTSA § 2(a), to be codified as 18 U.S.C. § 1836(b)(3)(C).

⁸ *See* DTSA § 2(a), to be codified as 18 U.S.C. § 1836(b)(3)(D).

⁹ *See* DTSA § 2(a), to be codified as 18 U.S.C. §§ 1836(b)(3)(A) and (B).



2. Availability of Ex Parte Seizure Orders

The most significant and controversial difference between the DTSA and the UTSA is that the DTSA provides for court-ordered *ex parte* seizures of “property necessary to prevent propagation or dissemination of a trade secret” – a powerful remedy that is not available under the UTSA. Although the DTSA does not explicitly address what property may be seized, the legislative history suggests that it is the trade secret itself or property containing the trade secret. For example, it may be reasonable to order the seizure of the defendant’s computers, servers or other storage media that contain the stolen trade secret materials.¹⁰ Thus, the DTSA’s *ex parte* seizure provision gives trade secret owners access to a powerful tool to prevent the destruction and dissemination of misappropriated trade secrets at the outset of the case.¹¹

Congress recognized the potential for abuse, however, if *ex parte* seizures were routinely granted and therefore amended the DTSA to limit the availability of this remedy to “extraordinary circumstances.”¹² Specifically, a court may only grant an application for an *ex parte* seizure under the DTSA if it concludes that the standard TRO prerequisites have been met and, in addition, finds that: (1) a temporary restraining order pursuant to Rule 65 of the Federal Rules of Civil Procedure would be inadequate because the party to which the order would be issued would evade, avoid or otherwise not comply with such an order; (2) the person against whom seizure would be ordered has actual possession of the trade secret and any property to be seized; (3) the property to be seized has been described with reasonable particularity and its location has been identified, to the extent such identification is reasonable; (4) the person against whom the seizure would be ordered, or those working in concert with that person, would hide, move, destroy or otherwise make such property inaccessible if notice were given; and (5) the applicant has not publicized the request for a seizure.¹³

If a pre-trial *ex parte* seizure is granted, then any property seized will be taken into the custody of the court.¹⁴ Within seven days after issuing a seizure order, the court will hold a hearing on notice, and the party that obtained the order will have the burden of proving the facts necessary to demonstrate the propriety of the order.¹⁵ The DTSA also provides a cause of action for any person who suffers damage by reason of a wrongful or excessive seizure.¹⁶

3. Employment Mobility is Protected

The DTSA also differs from the UTSA by explicitly protecting employment mobility. Whereas under the UTSA, some courts have enjoined a former employee from working in a job that would

¹⁰ See H.R. Rep. No. 114-529, at 10-11.

¹¹ See note 3, *supra*.

¹² See DTSA § 2(a), to be codified as 18 U.S.C. § 1836(b)(2)(A)(i).

¹³ See DTSA § 2(a), to be codified as 18 U.S.C. § 1836(b)(2)(A)(ii).

¹⁴ See DTSA § 2(a), to be codified as 18 U.S.C. § 1836(b)(2)(D).

¹⁵ See DTSA § 2(a), to be codified as 18 U.S.C. §§ 1836(b)(2)(B)(v) and (b)(2)(F).

¹⁶ See DTSA § 2(a), to be codified as 18 U.S.C. § 1836(b)(2)(G).



inevitably result in the improper use of a former employer's trade secrets,¹⁷ the DTSA expressly states that any injunction issued under the Act cannot "prevent a person from entering into an employment relationship."¹⁸ However, the DTSA does contemplate imposing conditions on a person's employment if there is "evidence of threatened misappropriation" but not merely because that person has knowledge of his or her former employer's trade secrets.¹⁹ Nevertheless, the DTSA will not preempt state trade secret laws, and the legislative history suggests that the Act's injunction provisions will not prevent courts from issuing an injunction that would otherwise be permissible under state law.²⁰ Thus, trade secret owners may still be able obtain injunctions to restrict the employment options of former employees to the extent that any such injunctions would be permissible under the applicable state law.

Ultimately, if the DTSA is enacted as expected, it will place trade secret law on par with patents, copyrights and trademarks by granting trade secret owners access to federal courts to enforce their rights. It will also include the powerful civil remedy of an *ex parte* seizure order that is not available under state law, and make exemplary damages, reasonable royalties and attorney's fees in limited circumstances available in states such as New York that have not yet adopted the UTSA. Given the numerous advantages of federal trade secret litigation under the DTSA, one can expect a significant increase in federal litigation of trade secret disputes.

¹⁷ See S. Rep. No. 114-220, at 9.

¹⁸ See DTSA § 2(a), to be codified as 18 U.S.C. § 1836(b)(3)(A)(i)(I).

¹⁹ See *id.*

²⁰ S. Rep. No. 114-220, at 9.



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