

INTELLECTUAL PROPERTY

THE DEFEND TRADE SECRETS ACT: WHAT'S THE BIG DEAL?



In May 2016, when President Obama signed the Defend Trade Secrets Act to create a federal civil cause of action for trade secret theft, corporations gained a new tool in their effort to protect their intellectual property. But there is still much uncertainty

over how the act will be enforced, particularly in terms of its seizure provisions.

The DTSA is a response to growing trade secret theft in an era of connected systems and electronic data. Prior to the DTSA's passage, federal civil law protected patents, copyrights, and trademarks, but not trade secrets. Thus, civil actions against trade secret theft fell under a variety of state statutes and common law. While the majority of states followed the Uniform Trade Secrets Act, there were still a number of legal differences from state to state that often caused real problems in the application of a "uniform" law. Moreover, a few key states, such as New York, never adopted the Uniform Trade Secrets Act. As a federal law, the DTSA ensures that in the future the legal protections offered by trade secrets will be more consistent. Remedies under the DTSA include monetary damages, injunctive relief, and in certain circumstances, attorney fees. Courts can double damages if the trade secret misappropriation is found to be willful or malicious.

The DTSA offers a few notable changes from state laws. For example, it provides limited immunity for whistleblowers, and companies are now required to provide notice of that immunity in any new or updated trade secret-related employee or contractor agreements. "If they haven't done that, in-house legal departments need to work with their HR departments to include that language in employment agreements," says [Michael Songer](#), a partner at Crowell & Moring and co-chair of the firm's [Intellectual Property Group](#).

The DTSA also allows trade secret owners to make *ex parte* applications to the federal courts requesting that law enforcement seize property to prevent the theft of trade secrets. "If you believe the theft is happening quickly, you can go to the court without the defendant being present and ask that computer systems, for example, be seized in order to stop the theft," says Songer. Some observers have worried that this *ex parte* procedure will be abused by plaintiffs. However, says Songer, that concern may be ill-founded because it is still difficult to obtain a seizure order. And,

he says, "under this new law, if you get a seizure order and it turns that out you're wrong about the theft, you pay the costs—so it's not something that will be done lightly."

Overall, says Songer, those specific changes will not have a tremendous effect on litigation strategies. The real impact of the law, he says, is the fact that it gives companies the opportunity to look for trade secret protection in federal, rather than state, courts. That's important, because in general, federal courts have more experience with intellectual property cases. "Many of the judges are used to technology cases because the federal courts have exclusive jurisdiction over patent cases," he says. "Federal court judges are used to dealing with high technology, and they usually have better resources to do so."

The ability to use federal courts is also important for managing the ever-escalating costs of discovery. Federal courts apply consistent discovery procedures, set either by the federal rules or the local court rules. They are also experienced in handling discovery disputes that could otherwise cause a case to spiral out of control, particularly in complex matters. And with the federal law in place, different courts can look to the collective guidance of other federal judges, as DTSA

KEY POINTS

More consistent treatment

The DTSA supports a more uniform approach to trade secret cases.

A new avenue for trade secret litigation

Companies can seek protection in federal courts, which typically have more experience in trade secret protection.

Improved odds for protection

Federal court involvement may make litigation a more appealing option for trade secret owners.



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cases result in final decisions and publicized opinions.

Having a federal law also benefits trade secret owners in cases involving trade secret theft by foreign companies and states. While these cases have usually wound up in the federal courts due to diversity jurisdiction, different legal applications in areas such as punitive damages often led to disparate results. “The new law ensures a consistent treatment for all aspects of a trade secret case that did not exist before,” says Songer. In addition, he says, “Federal courts have dealt with these issues for a long time. They know how to deal with serving foreign defendants and with foreign defendants that are destroying documents or that don’t show up in court.”

Songer points to the fact that the DTSA can be used alongside existing federal criminal statutes concerning trade secret theft. “The really significant change is that now you not only get to go into federal court with these cases, but you also have an opportunity to get the federal government involved, so you are bringing joint criminal and civil cases together,” he says.

While the DTSA promises to afford companies with new solutions for trade secret theft, there are still many unknown factors regarding both the use of the law and its specific provisions. For example, a trade secret plaintiff may prefer to be in state court. Given the vagaries of jurisdiction and removal of state court actions to the federal court, a defendant may be forced to litigate in that state court if no federal counterclaims exist. In addition, it is unclear how the benefits of the DTSA—*ex parte* seizure actions, uniform punitive damages, and ready access to the federal court system, for example—will overcome the desire for a local system, particularly in employee disputes. “Given that the substance of the new law is similar to the old law,” says Songer, “it just might be more cost-effective to stay with what you know unless the case has unusual elements.”

Still, there is no doubt that there has been a shift in philosophy on how to handle trade secret cases. In the past, companies have at times been reluctant to pursue such cases. Often, they were put off by the complexity and costs of taking cases to state courts and the reality that cases involving foreign defendants were not likely to get far in those courts. Add to that the potential reputational risk of having to publicly reveal the theft. But the passage of the DTSA—and recent well-publicized thefts—has changed those views. “If you have instances where you believe foreign competitors are taking your trade secrets, you should

really consider bringing an action,” says Songer. “Now you have a real chance of doing something about it, in a court system that is experienced in recovering assets and money from foreign wrongdoers.”

Meanwhile, Songer continues, legal departments should increase their focus on preventing problems in the first place. “As trade secrets have grown in importance, the number of thefts has increased dramatically,” he says. “So the general counsel needs to think about securing the company’s trade secrets, as well as its patents, as part of their cybersecurity programs.”

THE RETURN OF THE WILLFULNESS OPINION

In two rulings in June—*Halo v. Pulse* and *Stryker v. Zimmer*—the U.S. Supreme Court lowered the bar for willful infringement in patent cases. The Court said that the tests used for determining willfulness—which allows judges to award treble damages to patent owners—were too strict, and the decision should be left to the discretion of the court.

This change may bring back an old tactic—the “willfulness opinion.” Years ago, companies would often get an opinion from outside counsel to confirm that their products were not infringing on others’ patents. Thus, even if the company were found to be infringing in court, the opinion would support the view that it was not willful, and the court could take that into account in its deliberations. But in 2007, says Crowell & Moring partner Michael Songer, “the Supreme Court basically made it so hard to show willful infringement that no one bothered getting these opinions anymore.”

With these more recent rulings, however, a judge can once again consider a range of evidence—including the willfulness opinion. “It gives you a chance to make the point that you tried to do the right thing, that the question is an area where reasonable minds can differ, and this wasn’t willful,” says Songer. “So companies need to consider whether they should proactively go and get these opinions on their key products.”