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Federal Trade Secret Law Now Provides for Civil Actions

By Scott A.M. Chambers, Ph.D. and Matthew D. Zapadka

On Wednesday, May 11, 2016, President Obama signed and enacted the **Defend Trade Secrets Act of 2016** (DTSA), creating a federal civil cause of action for trade secret disputes. The Uniform Trade Secrets Act (UTSA) previously served as the model set of laws that 47 states implemented, with variations state-to-state. The DTSA will not preempt UTSA and state trade secret laws will remain intact.

Proponents of DTSA think that the act increases predictability and uniformity nationwide, whereas inconsistencies existed amongst state courts in the past. One possible reason for this is that federal courts are considered better equipped to handle complex technical issues because of their familiarity with patent and trademark cases.

Federal courts also have some familiarity dealing with trade secrets themselves because the DTSA is not entirely new, but is actually an add-on to the Economic Espionage Act of 1996. The Economic Espionage Act provided for criminal prosecution by the Department of Justice for trade secret misappropriation. This act, however, did not provide for civil actions. An owner of a trade secret may now file a federal civil lawsuit if a trade secret is misappropriated on or after the date of enactment and the trade secret is related to a product or service used, or intended for use, in interstate or foreign commerce.

The DTSA contains at least one notable difference compared to the UTSA: DTSA provides for civil seizure of property in "extraordinary circumstances." This change permits a court to issue an order for the seizure of property based on an affidavit or verified complaint. This provision has concerned some parties because the potential for abuse is apparent. An

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allegation resulting in a seizure of property can cause tremendous business disruption, especially considering that large amounts of trade secret data could easily be replicated and distributed within an accused organization.

There is no telling exactly how the federal courts will define these "extraordinary circumstances," but the statute provides that it must be clearly apparent from specific facts and that:

1. An order issued pursuant to Rule 65 of the Federal Rules of Civil Procedure or another form of equitable relief 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. An immediate and irreparable injury will occur if such seizure is not ordered;
3. The harm of denying the request of the party requesting the seizure outweighs the harm to the legitimate interests of the party against whom seizure would be granted and substantially outweighs the harm to any third parties who may be harmed by such seizure;
4. The requesting party is likely to succeed in showing that the information is actually a trade secret and the accused party misappropriated the secret;
5. The accused party has actual possession of the trade secret and property to be seized;
6. The request describes with reasonable particularity the matter to be seized and, to the extent reasonable under the circumstances, identifies the location where the matter is to be seized;
7. The accused party or persons acting in concert with such party would destroy, move, hide, or otherwise make the information inaccessible to the court if the requesting party were to proceed on notice to such person; and
8. The requesting party has not publicized the requesting seizure.

It may be a high burden to meet, but some think that the federal courts will look to other areas of intellectual property law, such as aspects of trademark law that allow for seizure of counterfeit goods, when making decisions on whether to seize property based on extraordinary circumstances.

Over the past several years, the landscape in intellectual property law has shifted and companies and persons must change correspondingly. With increased difficulty in obtaining software and business method patents, a federal trade secret statute may now provide greater incentive to keep these things secret. Moreover, organizations will need to be ever-more diligent in protecting its valuable trade secrets while also satisfying privacy laws such as health privacy laws, violations of which can bring other forms of liability.

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