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Trade Secret Litigation In New York: A Brief Look at the Impact of the DTSA

The enactment of the Defend Trade Secrets Act ("DTSA") in May of 2016 brought significant changes to the intellectual property laws in this country because it affords federal protection to company trade secrets bringing them more in-line with other forms of intellectual property protection, namely patents, trademarks, and copyrights. See generally 18 U.S.C. §§1831 et seq. While the DTSA arrived with great fanfare in the legal community last May, as with any new legislation still in its infancy, use of the DTSA has endured some growing pains and its effects are yet to be fully appreciated. Nonetheless, the DTSA should be something that New York companies keep on their radar because it has offensive benefits beyond what is currently provided by New York law; but, for that same reason, could also expose your company to potentially greater liability.

One goal of the DTSA was to provide litigants with access to federal courts due to the ever increasing frequency of corporate espionage, including misappropriating trade secrets through, for example, employee defections, bribes, or other improper means. For New York entities, in particular, it did even more than that. The reason is that New York has yet to adopt the Uniform Trade Secrets Act ("UTSA") followed by most other States, much of which has been adopted by the DTSA. The UTSA sought to streamline trade secret claims by constructing a uniform set of rules for adjudicating such claims. Yet, the UTSA was not a federal law having application in each State—New York, for example. Rather than follow the majority and adopt the UTSA, New York still relies on the common or "court-created" law. With the introduction of the DTSA, what that means for a New York company is that it may potentially bring a trade secret claim under both the DTSA and New York's common law. The potential benefits, or the potential harm depending on which side of the dispute one finds herself, are significant and worth revisiting.

The first key point is that what may constitute a "trade secret" under the DTSA is much broader than under New York law. New York law requires that the trade secret be "used in one's business," meaning the secret is literally in continuous use. See, e.g., Ashland Mgt. v. Janien, 82 N.Y.2d 395, 407 (1993). There are other stringent factors that figure into the New York calculus, such as the depth of the investment or the length to which the company has gone to protect the formula or technique, none of which may be required under the DTSA. If, for example, a company discovers a valuable formula by accidental discovery through little or no investment or labor expended to uncover it, it may not qualify as a protectable "trade secret" under New York law. Conversely, under the expanded definition of "trade secret" in the DTSA, the same accidental discovery may qualify as a "trade secret" and be appropriately shielded from use by another entity. Therefore, if a company made a significant investment to develop and protect a trade "secret," New York law may be most helpful; whereas, if a secret uncovered around May 2016 is quite valuable but was simply a lucky break, the DTSA may prove more beneficial.

Another key difference between the two laws is the type of monetary damages available to the parties. Under the DTSA, a successful plaintiff may be entitled to additional damages up to two times the amount of actual damages if it can demonstrate that the trade secret was willfully and maliciously misappropriated. The statute also provides a specific right to attorneys' fees, which is atypical under American jurisprudence. The DTSA affords a prevailing party—either a plaintiff who has shown willful and malicious misappropriation by a defendant or, on the other hand, a defendant who has shown that a plaintiff's claim was brought in bad faith—the right to seek its reasonable attorneys' fees. This aspect of the law may cut both ways because it can be viewed as an offensive threat or serve as a defensive backstop because attorneys' fees can sometimes be significant in these types of fact-intensive cases.

Additionally, the DTSA offers significant added protection against disclosure of valuable confidential business information by departing employees, as well as the ability to ex parte seize goods employing the misappropriated trade secret. These are important changes for businesses that were comparatively limited by New York's common law.

This discussion is by no means intended to be exhaustive as there are other key differences between the two laws. Yet, New York companies should at least be aware of these highlighted changes, and care should be taken to ensure that the different rights and advantages that now exist under federal and state law are diligently defended or preserved.

[1] N.Y. Senate Bill 4688 (and its counterpart Assembly Bill 6419) does, however, seek to bring N.Y. law in-line with the UTSA. As such, companies should track these bills to see if either makes it out of committee.

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