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ALERT

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DEFEND TRADE SECRETS ACT IS ENACTED

Creates Federal Right of Action for Misappropriation of Trade Secrets Effective Immediately; Mandates Revision of Non-Disclosure and Confidentiality Agreements by Employers

By Scott J. Wenner

In late April, Congress approved the Defend Trade Secrets Act of 2016 ("DTSA" or the "Act") with overwhelming bipartisan majorities. President Obama signed DTSA into law on May 11, and it takes effect *immediately*.

First introduced in 2014, DTSA failed to progress in the last Congress. However, after its reintroduction in 2015 by Senators Hatch (R-UT) and Koons (D-DE), and the Senate Judiciary Committee held hearings that yielded clarifying amendments and an amendment to protect whistleblowers who have used trade secrets to help prove their claims, Congressional support for the legislation gathered momentum and passage in both houses resulted last month. The fact that it achieved near universal support in the nasty political environment that persists at the Capitol speaks to the widely held perception that a federal trade secrets law was needed at this time.

The Statute: Similarities to, and Differences Between Existing State Laws

In a nutshell, the DTSA establishes for the first time a federal cause of action for trade secret misappropriation. The Act amends the existing Economic Espionage Act, 18 U.S.C. § 1831, *et seq.*,[1] which, until now, did not authorize a wronged party to bring a civil action. While it does not radically depart substantively from the Uniform Trade Secrets Act ("UTSA") – a model statute that has been enacted into law in every state except for Massachusetts and New York, DTSA contains several important features that distinguish it from existing trade secret laws and remedies at the state level.

A DTSA action, which technically will be brought under the Espionage Act, will coexist with, rather than displace, current state law causes of action and remedies, most of which stem from a state's enactment of UTSA. This will present misappropriation victims with a choice of whether to seek relief in state or federal court, and under existing state laws or pursuant to DTSA. As already suggested, DTSA represents an approach that is broadly consistent with existing state law, both in states that have enacted UTSA and in New York and Massachusetts, which continue to apply common law instead. Thus, DTSA defines "trade secret" in closely similar terms to its definition in UTSA. It also it has the same three-year statute of

[1] The Economic Espionage Act did not allow for private civil actions.

limitations for claims that will be brought under its provisions in federal court.

While similar to existing law in a broad sense, DTSA takes a novel approach to several issues. For example, it

- creates a new right to seizure by law enforcement of misappropriated property that can be obtained *ex parte* (without prior notice to the other party) to more effectively prevent disclosure and/or use of misappropriated trade secrets upon a showing that such relief is "necessary to prevent the propagation or dissemination of the trade secret;
- adds conditions on awarding injunctive relief to protect employees who have accepted employment with new employers;
- immunizes whistleblowers who disclose trade secrets to government authorities or lawyers in reporting suspected violations of law or in complaints filed under seal; and
- requires employers to notify employees who sign new nondisclosure agreements of the protection of whistleblowing activity.

Not surprisingly, the seizure provision garnered attention and created controversy even before the Act's passage. To mitigate the harshness of the process the Act authorizes, the Act makes plain (i) that the seizure remedy is intended to be extraordinary, (ii) requires posting of a bond adequate to cover damages to the other party should the seizure later be found excessive or wrongful, and (iii) sets standards similar to those applied in awarding temporary restraining orders[2], but with the additional requirement that the petitioner produce evidence why lesser relief, e.g., a temporary restraining order, would not be sufficient.

Inevitable Disclosure

Another important departure that DTSA appears to take from existing trade secret law in some states concerns the "inevitable disclosure" doctrine. States recognizing this doctrine[3] allow their courts to enjoin employment with a competitor based on a finding that a former employee necessarily would disclose proprietary information in performing his/her new job. No evidence of actual disclosure is necessary to state a claim, nor must the employee have signed a non-competition agreement. While the inevitable disclosure doctrine will continue to be available in actions brought in states whose laws recognize that doctrine, employers that bring federal claims under the DTSA may not be able to rely on inevitable disclosure to restrain an employee from competing, or to relieve it of producing evidence of actual misconduct as opposed to a mere prediction of future harm. While the wording of DTSA is somewhat ambiguous on the point, it does appear to preclude reliance on the inevitable disclosure doctrine.

Special Note for Employers

The DTSA requires all employers to provide a notice of immunity to employees and contractors "in any contract or agreement with an employee [or independent contractor] that governs the use of a trade secret or other confidential information." Thus, employees and contractors must be notified in nondisclosure agreements that a disclosure that otherwise would be a trade secret misappropriation will be immune from liability if it: "(A) is made (i) in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal."

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[2] Typically these include a showing of irreparable harm in the absence of the relief sought, likelihood of success on the merits of the misappropriation claim, the balance of harm tilts in favor of the movant, and the absence of harm to the interests of the public.

[3] Judicial decisions in some states, including Florida, Indiana, Massachusetts, New York and New Jersey, are inconsistent in their recognition and application of inevitable disclosure. However, courts in Arkansas, Connecticut, Delaware, Iowa, North Carolina, Ohio, Pennsylvania, Utah and Washington have more consistently recognized and applied the doctrine.

Full consequences for failing to comply are unclear. DTSA specifies that a failure to notify an employee will disqualify the employer from an award of exemplary double-damages or attorney fees in an action against the employee under that statute. However, keeping in mind that the notification requirement is imposed on all agreements involving trade secrets or confidential information, it remains to be seen how a failure to disclose might affect an action for misappropriation under state law. For example, one can envision an employee asserting that the failure to notify at the least is evidence that the information at issue is not protectable.

With potential consequences for noncompliance unknown but possibly severe, employers should consider inserting an appropriate notice in all nondisclosure agreements employees and independent contractors are required to sign, *beginning immediately*. ◆

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