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Congress Passes Federal Trade Secrets Act

With the long-awaited passage of the Defend Trade Secrets Act of 2016 (“DTSA”), which amends the Economic Espionage Act, and expected imminent signing by President Obama, federal law will now provide a civil cause of action for misappropriation of trade secrets. Prior to the DTSA, the protection of trade secrets was largely a matter of state law and based primarily on the Uniform Trade Secrets Act (“UTSA”). Most states have adopted a version of UTSA, but variations between states on essential requirements, such as what qualifies as a trade secret, led to the call for a federal body of law that would be more predictable and uniform.

The DTSA does not preempt state laws governing trade secrets, but will allow civil litigants to pursue an additional claim and to bring those claims in federal court. Litigants will still be able to pursue state law claims for misappropriation of trade secrets, but by filing in federal court, they will now have access to the broad, nationwide discovery permitted by the Federal Rules of Civil Procedure and the unique remedies afforded by the new law.

Two provisions of DTSA are particularly noteworthy: the allowance of ex parte seizure orders and certain employee protections. Ex parte seizure orders – essentially an order from the court permitting the seizure of property to prevent the use or dissemination of the stolen trade secret without notice to the accused wrongdoer – would be permitted in “extraordinary circumstances.” In the event that a wrongful seizure occurs, the victims will be entitled to damages, including punitive damages upon a showing of bad faith, and attorneys’ fees. It remains to be seen how courts will interpret the ex parte seizure provisions, including what constitutes a wrongful seizure, and whether or not such requests will be made often by the trade secret owner.

The DTSA also provides certain protections for employees, which includes contractors and consultants. Specifically, the legislation provides protection for certain “whistleblower” employees, and employers are obligated to inform their employees of these new protections. For example, if an employee discloses a company’s trade secret in confidence “solely for the purpose of reporting or investigating a suspected violation of law,” that employee is immune from liability under DTSA. Moreover, going forward, employers who fail to provide their employees with notice of the new immunities could lose the ability to recover punitive damages or attorneys’ fees in an action against an employee. The notice requirement may be satisfied by an employer “provid[ing] a cross-reference to a policy document provided to the employee that sets forth the employer’s reporting policy for a suspected violation of law.” In addition, the law prohibits a court from “prevent[ing] a person from entering into an employment relationship” and requires that any conditions placed on the new employment



“be based on evidence of threatened misappropriation and not merely on the information the person knows”, which is intended to foster employee mobility and to avoid conflict with state law. Thus, in states that have authorized the “inevitable disclosure” doctrine as being a sufficient basis to justify a misappropriation of trade secrets claim, it will be imperative that the employer bring state law claims in addition to a DTSA claim.

We strongly recommend that employers take notice of the changes the DTSA makes to existing law. All employers should review any employee agreement that “governs the use of a trade secret or other confidential information” and provide the requisite notice of the new immunities. Employers also are encouraged to perform a trade secret audit to identify or inventory and document their claimed trade secrets, the steps that have been implemented to protect those trade secrets from disclosure and the economic value associated with the trade secret. By taking these steps now, an employer will be in a better position if it finds itself in a dispute regarding the misappropriation of the company’s trade secrets.

Questions or Assistance:

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