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Defend Trade Secrets Act of 2016

In May 2016, the Congress enacted the Defend Trade Secrets Act, creating a federal private right of action for the misappropriation of trade secrets. Previously, companies were required to rely upon on disparate state laws to remedy the theft of trade secrets. Although those state laws that prohibit the theft of trade secrets will still apply, with the passage of this Act, companies will have the option of seeking relief under a uniform law regardless of where the theft occurs, thereby providing greater certainty of results. Since New York has not adopted the Uniform Trade Secrets Act, this new federal law provides enhanced value for New York employers. In addition, because trade secret disputes often involve violations of restrictive covenants such as non-competition or non-solicitation agreements, such claims may now be resolved in federal court under the court's supplemental jurisdiction. This could expedite litigation with former employees who are alleged to have taken trade secrets and violated their restrictive covenants, as well as with competitors aiding in that effort.

A. Relief Available to Employers

The Act provides the following remedies:

(1) equitable relief such as injunctions;
(2) actual damages;
(3) punitive damages; and
(4) reasonable attorneys' fees.

Significantly, it also allows for the extraordinary remedy of an *ex parte* seizure order in certain extreme circumstances. That is, employers may obtain a court order authorizing the seizure of trade secrets upon application to the court without notice to the defendant upon the presentation of substantial evidence. Conversely, the court will be empowered to impose sanctions on a company that wrongfully obtains an order to seize another's property.

B. Definition of Trade Secrets and Misappropriation

The law does not change the need for employers to appropriately identify trade secrets, protect such trade secrets from inappropriate use or disclosure, and take steps to maintain their secrecy. In this regard, employers should only designate those trade secrets that are actual secrets. The Act defines trade secrets as:

> all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes,

> methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if (A) the owner thereof has taken reasonable measures to keep such information secret; and (B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information.

Thus, the Act recognizes that trade secrets encompasses information in any form, "whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing", and requires only that the information must not be generally known by "another person who can obtain economic value from the disclosure or use of the information."

Misappropriation under the Act includes: without permission (a) obtaining a trade secret that was knowingly obtained through improper means, or (b) disclosing or using a trade secret without knowing either (i) that it is a trade secret, or (ii) that it was obtained through improper means. The "improper means" include "theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means." Significantly, misappropriation does not include "reverse engineering, independent derivation, or any other lawful means of acquisition."

C. Differences with Certain State Laws

The Defend Trade Secrets Act does not carry forward the "inevitable disclosure" doctrine that is allowed under some state laws in certain circumstances. The Act expressly rejects the doctrine and prohibits a court from enjoining a person from entering into an employment relationship on this basis. Contrary to some state laws, the Act also requires actual evidence of threatened misappropriation rather than merely information that the person knows to support an injunction.

D. Prior Notice of the Safe Harbor Provisions of the Act is Required

In order to avail itself of the protections of the Defend Trade Secret Act, an employer must comply with its terms, particularly the notice requirements. The Act requires that the employer previously provide the employee, consultant, independent contractor or other contract party with notice of certain immunity from criminal and civil prosecution granted by the Act to

persons who lawfully disclose trade secrets, such as disclosure to government agencies or to an attorney for the sole purpose of reporting or investigating a suspected violation of law, and disclosure under seal in court proceedings alleging retaliation for reporting a suspected violation of law. Without providing the appropriate notice, an employer may not obtain punitive damages or reimbursement of its attorneys' fees incurred in connection with the litigation.

E. Recommended Course of Action

The notice must be expressly included in any agreement that governs the use of trade secrets or confidential information. This applies to agreements that are entered into, or updated, after enactment of the Act on May 16, 2016. Thus, all employment agreements, non-disclosure and confidentiality agreements, consulting and independent contractor agreements, and severance agreements containing non-disclosure provisions should be reviewed and modified to include the required notice.

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CONTACT

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