

## The Defend Trade Secrets Act is More of the Same

Among the few changes created by the new law are seizure procedures and employee job mobility.

BY LEWIS R. CLAYTON

In this time of federal legislative gridlock, there is at least one issue Congress and the president agree upon enthusiastically: Last month the Defend Trade Secrets Act of 2016 was overwhelmingly approved by the Senate (87-0) and the House of Representatives (410-2), and signed into law by the president on May 11. The law creates a new federal private right of action prohibiting the misappropriation of trade secrets, so that every major branch of intellectual property law—save the right of privacy—now has its own statute affording civil plaintiffs access to federal courts.

Congress was apparently persuaded to pass the Defend Trade Secrets Act because it believed that theft of trade secrets has caused trillions of dollars of losses to the American economy. Nevertheless, the statute makes no meaningful substantive change in existing state trade secret law, and it is far from certain that federalizing trade secret misappropriation was necessary.

The Defend Trade Secrets Act supplements, but, with rare exceptions, does not pre-empt, state law. The heart of the statute is an amendment to the Economic Espionage Act, a criminal statute outlawing trade secret theft, adding a private right of action for misappropriation of a trade secret “related to” a product or service used or intended for use in interstate or foreign commerce.

The key definitions in the Defend Trade Secrets Act—of “misappropriation” and “trade secret”—are not meaningfully different from those in the Uniform Trade Secrets Act, which has been adopted by 47 states (bills to adopt the act have been introduced in New York and Massachusetts, two of the holdouts, and North Carolina’s statute borrows heavily from the Uniform Trade Secrets Act).



“Misappropriation” is the acquisition, use or disclosure of a trade secret acquired by improper means, and a “trade secret” is any “financial, business, scientific, technical, economic, or engineering information” that the owner has taken reasonable steps to keep secret and that has “independent economic value” because it is not generally known or “readily ascertainable” such as through reverse engineering.

### AUTHORIZING SEIZURES

The statute does tackle some controversial trade secret issues. The drafters put a good deal of

effort into a provision authorizing federal courts, in extraordinary circumstances, to allow an ex parte seizure—that is, without prior notice to the defendant—where necessary to prevent the “propagation or dissemination” of a misappropriated trade secret.

This remedy is available only when the court finds that it “clearly appears from specific facts” that the defendant would “evade, avoid or otherwise refuse to comply” with a temporary restraining order and, if afforded prior notice, would destroy, move or hide trade secret material. On that standard, ex parte seizure will not be available in ordinary trade secret disputes between competitors, barring a compelling showing that the defendant is acting in bad faith. Plaintiffs who abuse the procedure will face liability under the Defend Trade Secrets Act for damages and attorney fees.

As a remedy of “last resort,” the Defend Trade Secrets Act, like the Uniform Trade Secrets Act, allows a court to condition future use of a misappropriated trade secret upon the payment of a reasonable royalty. A reasonable royalty order—in effect, a compulsory license—is likely to be available only when a defendant has acted in good faith or when an important public interest

would be threatened if the defendant’s operations were disrupted.

The Defend Trade Secrets Act also appears to reject “inevitable disclosure,” a doctrine recognized by a minority of states. The doctrine allows the owner of a trade secret to prevent a former employee from working for a competitor when the employee inevitably will find trade secret information of use in making business decisions, even if the information will not necessarily be disclosed to the new employer. Critics have claimed that the doctrine unfairly provides employers with an automatic noncompetition agreement binding any employee exposed to trade secrets. Disassociating itself from inevitable disclosure, the Defend Trade Secrets Act provides that an injunction under the statute may not “prevent a person from entering into an employment relationship, and that conditions placed on such employment shall be based on evidence of threatened misappropriation and not merely on the information the person knows.”

Because the Defend Trade Secrets Act does not pre-empt state law, however, inevitable disclosure will remain available if suit is brought in state or federal court in any jurisdiction that recognizes the doctrine.

Another pro-employee feature of the Defend Trade Secrets Act is its provision barring liability when a whistleblower discloses a trade secret in confidence to a government official for the purpose of reporting an alleged violation of law. Indeed, the statute requires employers to disclose this provision in any employment contract that regulates an employee’s use of confidential information.

It seems unlikely the rare act of bipartisanship represented by the Defend Trade Secrets Act will make a significant difference in trade secret law. It codifies, more than changes, existing trade secret law, and trade secret cases typically turn on the facts—whether the trade secret material was truly confidential and competitively valuable and whether the defendant acted in good faith—rather than arcane legal principles. Trade secret owners will appreciate the convenience and uniform procedural rules of a federal court forum, although trade secret cases often have arrived in federal court through diversity and alienage jurisdiction.

On the other hand, leaving aside the caseload burden it likely will impose on overworked federal courts, the Defend Trade Secrets Act surely won’t hurt.



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