

**President Obama Signs Defense of Trade Secrets Act:
New Benefits for Owners of Trade Secrets, New Concerns for Employers**

By: Robert W. Small

On May 12, 2016 President Obama signed into law the Defense of Trade Secrets Act (the “Act”). The Act, which technically is an expansion of the Economic Espionage Act of 1996, has several significant features that benefit owners of trade secrets, but which also create new concerns for Employers. Employers who wish to secure The Act’s full benefits will have to amend employment and independent contractor agreements.

It is noteworthy to mention that the Act does not preempt state trade secret law. This can be important where state law would give greater protection or flexibility to trade secret owners. In such cases, they may continue to avail themselves of state law protections in addition to the remedies under the federal Act that might not be available under state law.

The most significant aspect of the Act is that it permits a federal court to issue an *ex parte* seizure order. This is a double-edged sword about which all Employers must be mindful. It is an obvious boon to an Employer claiming that a former employee stole its trade secrets. But, the new Employer of an employee accused of taking his former Employer’s trade secrets now is subject to having its computers or other property seized without notice. *Ex parte* seizure will not be issued as a matter of course. The party seeking such an order must satisfy not only the normal criteria for an injunction, but must also offer specific evidence that the normal injunction procedure (i.e. notice and hearing) would be inadequate to prevent harm because the person who has taken the secret information would evade or violate an injunction obtained in the normal fashion by destroying, moving, hiding or otherwise making evidence of theft inaccessible.

The possibility of being the target of an *ex parte* seizure order makes it imperative for Employers to be careful when hiring new employees who could bring with them the trade secrets of their former Employer. Employers should review offer letters, employment contracts, restrictive covenants and non-disclosure agreements to be certain they not only prohibit misuse of the Employer’s trade secrets but those of prior Employers. (The definition of “trade secret” is substantially the same as in the Uniform Trade Secrets Act which all states, except New York and Massachusetts, have adopted.)

When a court does enter an *ex parte* seizure order it must give explicit instructions to the court officers enforcing the order as to when seizure may occur and whether force may be used. Further, the Act forbids the copying of seized property. Nevertheless, the seizure of computers, for example, could create tremendous disruption for the new Employer. For this reason, the Act requires a hearing promptly after an *ex parte* seizure order issues.

Monetary relief including actual damages, exemplary damages of two times actual damages and attorney fees, in addition to an order requiring restitution and other injunctive relief, are available under the Act. The Act also permits a court to enjoin employment with a prospective Employer but imposes limitations on obstructing an employee from working in his or her chosen field. An injunction may not prohibit altogether an employee from accepting employment with a

competitor, but many only limit what work the employee can do for the competitor if there is evidence of actual or threatened misappropriation. State law might offer greater protection.

It is not sufficient that an employee knows trade secrets of the former Employer to curtail what he can do for the subsequent Employer. There must be a showing of actual or threatened misappropriation. Here too, state law might afford a former Employer broader relief by preventing competitive employment altogether, especially if a state has adopted the “inevitable disclosure doctrine” (as Pennsylvania has). That doctrine holds that, if a former employee’s employment with a competitor would result in the inevitable disclosure of the former Employer’s trade secrets, employment with the new Employer may be enjoined. “Inevitable disclosure” is not sufficient under the federal Act to limit future employment.

The Act gives immunity if an individual discloses a trade secret in confidence to a government official or attorney for the purpose of reporting a violation of law. **Critically, the Act requires employers to notify employees of this immunity provision “in any contract or agreement with an employee that governs the use of a trade secret or other confidential information.”** This duty can be satisfied by the employer providing a “cross-reference” in the agreement to a policy given to the employee that lays out the reporting policy for suspected violations of law. **This provision of the Act likely will require most employers to modify existing Employment Agreements and non-disclosure agreements.**

It is important in modifying agreements with existing employees or independent contractors that Employers are mindful of state laws that might require giving new consideration to support the revised agreement. Employers should consult with competent employment counsel before modifying existing agreements. The penalty for non-compliance with notice provision of the Act is that the employer may not recover exemplary damages or attorneys’ fees. Also to be noted is that the definition of “employee” includes contractors and consultants.

It is not a bad idea for appropriate language to be placed in all agreements that touch on trade secrets, such as joint venture agreements, standstill agreements and stand-alone non-disclosure agreements. The Act does not prescribe any precise language.

The Act increases criminal penalties for a violation from \$5 million to the greater of \$5 million or three times the value of the stolen secrets, which includes any cost of reproducing them. The Act also amends RICO to add a violation of the Act as a predicate act under that statute.

The Defense of Trade Secrets Act offers significant benefits to Employers having trade secrets, but requires them to act to take full advantage of those benefits and imposes the burden of acting to assure that new employees do not bring with them the trade secrets of former Employers.

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