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The Contract Exception to the Uniform Trade Secrets Act and Its Implications for the Federal Defend Trade Secrets Act

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**THE CONTRACT EXCEPTION TO THE UNIFORM TRADE
SECRETS ACT AND ITS IMPLICATIONS FOR THE
FEDERAL DEFEND TRADE SECRETS ACT**

Richard F. Dole, Jr.[†]

The state statutory remedies for trade secret misappropriation and the new federal statutory remedies in the 2016 federal Defend Trade Secrets Act must be coordinated with both each other and with state enforcement of restrictive employment covenants. Whenever both statutory and contractual remedies are sought, a double monetary recovery for a single wrong must be avoided. A statutory remedy should not prohibit conduct that state restrictive employment covenant policy does not allow to be restricted. The fact that state restrictive covenant policy can protect confidential information that does not qualify for trade secret protection also must not be allowed to erode the statutory definition of trade secret.

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TABLE OF CONTENTS

INTRODUCTION 364

I. AN OVERVIEW OF THE UTSA..... 366

 A. *The UTSA Preemption Provision*..... 367

 B. *The Contract Exception to the UTSA Preemption Provision*....
 368

 C. *Necessary Exclusions from the Contract Exception*..... 370

 D. *The Tort Consequences of the Contract Exception*..... 371

II. AN OVERVIEW OF RESTRICTIVE EMPLOYMENT COVENANTS ..
 372

 A. *General Principles* 372

 1. The Relationship of Restrictive Covenants to the UTSA 372

 2. Common Restrictive Covenants..... 372

 3. Limitations Upon the Enforceability of Restrictive
 Covenants 373

 B. *The Dual Function of Covenants Not to Disclose or to Use
 Information*..... 376

 C. *The Effect of Restrictive Covenants in UTSA Litigation* 378

 D. *Suits for Both Breach of a Restrictive Covenant and Violation
 of the UTSA* 379

III. FEDERAL TRADE SECRET LEGISLATION 380

 A. *The Economic Espionage Act* 380

 1. Overview..... 380

 2. The Need for the DTSA..... 383

 B. *The Defend Trade Secrets Act*..... 384

 1. Overview..... 384

 2. The DTSA Equivalent of the UTSA Contract Exception 390

CONCLUSION 392

INTRODUCTION

The state-enacted Uniform Trade Secrets Act¹ (“UTSA”) reformulates the elements of the tort of trade secret misappropriation and preempts conflicting duplicative noncontractual remedies in an enacting state.² The UTSA was initially adopted in 1979 and amended in 1985³ by the Uniform Law Commission (the “ULC”).⁴ The ULC reports the UTSA as having been enacted in forty-seven states.⁵

Section 7 of the widely-adopted 1985 version of the UTSA expressly excepts from preemption “contractual remedies, whether or not based upon misappropriation of a trade secret.”⁶ An Official Comment to both the 1985 and 1979 versions of UTSA Section 7(b) states that the Contract Exception is limited to express and implied-in-fact contracts.⁷ Like the UTSA, the federal Defend Trade Secrets Act (the “DTSA”) reformulates the elements of the tort of trade secret

1. See UNIF. TRADE SECRETS ACT §§ 1-12, 14 U.L.A. 529-659 (2005), 92-146 (2017 Supp.). Decisions under state enactments of the UTSA are identified in the footnotes.

2. UNIF. TRADE SECRETS ACT § 7(a); see generally Richard F. Dole, Jr., *Preemption of Other State Law by the Uniform Trade Secrets Act*, 17 SMU SCI. & TECH. L. REV. 95 (2014) [hereinafter *Preemption*].

3. See UNIF. TRADE SECRETS ACT §§ 1-12.

4. See *id.* (The ULC was organized in 1892 to promote desirable and practicable uniformity in state law. Commissioners are appointed by every state, the District of Columbia and Puerto Rico).

5. See UNIF. LAW COMM’N, *Legislative Fact Sheet – Trade Secrets Act*, http://bit.do/ULC_Legislative (the UTSA has yet to be enacted in Massachusetts, New York, and North Carolina but has been adopted in the District of Columbia, Puerto Rico, and the U.S. Virgin Islands). Widespread enactment of the UTSA has been a factor in the increasing importance of trade secret law. David S. Almeling, *Seven Reasons Why Trade Secrets Are Increasingly Important*, 27 BERKELEY TECH. L.J. 1091, 1106 (2012) (“Reason No. 4: The UTSA . . . widespread enactment of the UTSA has increased awareness of trade secret law[.]”).

6. UNIF. TRADE SECRETS ACT § 7(b)(1). Most states have enacted either § 7(b) of the 1985 Act or a nonuniform variation. The only states with § 7(b) of the 1979 Act are Alaska, Arkansas, Connecticut, Louisiana, and Washington. See ALASKA STAT. § 45.50.930 (2016), ARK. CODE ANN. § 4-75-602 (2011 & 2017 Supp.), CONN. GEN. STAT. ANN. § 35-57(b) (2015 & 2016 Supp.), LA. STAT. ANN. § 51:1437 (West 2012 & 2017 Supp.), and WASH. REV. CODE ANN. § 19.108.900 (West 2013 & 2017 Supp.).

7. UNIF. TRADE SECRETS ACT § 7(b). On the other hand, quasi-contract, unjust enrichment, and quantum meruit claims for trade secret misappropriation are preempted. See, e.g., *Spitz v. Proven Winners North America, LLC*, 759 F.3d 724, 733 (7th Cir. 2014) (“[U]njust enrichment and quantum meruit are essentially claims for restitution” [and preempted by the UTSA.]) (Illinois enactment); see also *Fox Controls, Inc. v. Honeywell, Inc.*, No. 02 C 346, 2004 WL 906114, at *3 n.2 (N.D. Ill. Apr. 23, 2004) (“We reject plaintiff’s wholly unsupported assertion that quasi-contract, unjust enrichment, and quantum meruit are ‘contractual remedies’ and thus are not affected by ITSA preemption.”) (Illinois enactment).

misappropriation,⁸ but the DTSA has no express counterpart of the UTSA Contract Exception.⁹

The UTSA Contract Exception reflects the close relationship between the tort of trade secret misappropriation and restrictive covenants.¹⁰ An Official Comment to both the 1985 and 1979 versions of the UTSA gives covenants not to disclose trade secrets and covenants not to compete, which are intended to protect trade secrets as examples of contracts that are not preempted.¹¹ These covenants exist in two principal contexts: they are required by persons with trade secret rights from employees with access to trade secrets and confidential information and from business associates with access to trade secrets and confidential information, e.g., licensees, customers, joint ventures, distributors, and suppliers.¹²

The two principal contexts in which restrictive covenants are required involve many of the same considerations. However, with respect to employees, the extent to which an individual's ability to find appropriate work is limited is an important factor in determining enforceability; whereas, with respect to business associates, the extent to which a business' ability to compete is limited is an important factor in determining enforceability.

8. Defend Trade Secrets Act, Pub. L. No. 114-153, §§ 1-7, 130 Stat. 376-86 (2016); 18 U.S.C. §§ 1836-1839 (amended 2016).

9. See Defend Trade Secrets Act §§ 1836-1839.

10. Former employers, for example, frequently sue former employees for both breach of a restrictive employment covenant and trade secret misappropriation. See, e.g., *La Calhene, Inc. v. Spolyar*, 938 F. Supp. 523, 524, 531-32 (W.D. Wis. 1996) (preliminary injunction granted for both breach of restrictive covenant & trade secret misappropriation) (Minnesota enactment); *Mattern & Assoc. v. Seidel*, 678 F. Supp. 2d 256, 267-70 (D. Del. 2010) (recovery for both breach of restrictive covenant & trade secret misappropriation) (Delaware enactment); *Xantrex Tech., Inc. v. Advanced Energy Indus.*, No. 07-CV-02324-WYD-MEH, 2008 WL 2185882, at *16, *20 (D. Colo. May 23, 2008) (preliminary injunction granted for both breach of restrictive covenant & trade secret misappropriation) (Colorado enactment); *Engility Corp. v. Daniels*, No. 16-CV-2473, 2016 WL 7034976, at *1 (D. Colo. Dec. 2, 2016) (alleged violation of the DTSA, the Colorado enactment of the UTSA, and breach of a confidentiality covenant) (Colorado enactment).

11. See UNIF. TRADE SECRETS ACT § 7.

12. See David S. Almeling et al., *A Statistical Analysis of Trade Secret Litigation in Federal Courts*, 45 GONZ. L. REV. 291, 293, 303 (2010) [hereinafter *Statistical Analysis Federal Courts*] (“[I]n over 85% of cases, the alleged misappropriator was either an employee or business partner.”). This article presents statistics from 394 cases in which a federal district court issued written opinions based on trade secret law between 1950 and 2008. David S. Almeling et al., *A Statistical Analysis of Trade Secret Litigation in State Courts*, 46 GONZ. L. REV. 57 (2011) [hereinafter *Statistical Analysis State Courts*], is a companion article, which analyzed 2,077 state appellate court decisions issued between 1995 and 2009, that reached a similar conclusion. Employees and business associates of persons with trade secret rights frequently are required to execute restrictive covenants. *Id.* at 58, 68-69.

This Article deals with the relationship of restrictive employment covenants to the UTSA and the DTSA. The starting place is an overview of the UTSA and the law of restrictive employment covenants.

I. AN OVERVIEW OF THE UTSA

The UTSA is an intellectual property statute that encourages the development of valuable new commercial information through recognition of limited exclusive rights.¹³ The UTSA was intended to fill the gap created by the omission of trade secrets from the Restatement (Second) of Torts.¹⁴ In 1995, the American Law Institute (ALI) promulgated the Restatement (Third) of Unfair Competition,¹⁵ which reintroduced ALI coverage of trade secrets,¹⁶ and, as a general proposition, is intended to be consistent with the UTSA.¹⁷

UTSA Section 1(4) defines a “trade secret” as follows:

“Trade secret” means information, including a formula, pattern, compilation, program, device, method, technique, or process that:

- (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and
- (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.¹⁸

The definition has three aspects. The preamble is a nonexclusive list of the forms in which a trade secret can appear. Because the list is nonexclusive, it does not limit the information that can be a trade secret.¹⁹

13. See generally Mark A. Lemley, *The Surprising Virtues of Treating Trade Secrets as IP Rights*, 61 STAN. L. REV. 311 (2008); but see Charles Tait Graves, *Trade Secrets as Property: Theory and Consequences*, 15 J. INTELL. PROP. L. 39, 80-84 (2007) (trade secrets are best justified by the infrastructural nexus that a business provides for creativity).

14. See 4 RESTATEMENT (SECOND) OF TORTS at 1-2 (AM. LAW INST. 1979) (stating that trade secret law had become independent of tort law); The Restatement (First) of Torts devoted three sections with elaborate comments to trade secrets, see RESTATEMENT (FIRST) OF TORTS §§757-759 & comments (AM. LAW INST. 1939).

15. RESTATEMENT (THIRD) OF UNFAIR COMPETITION (AM. LAW INST. 1995).

16. RESTATEMENT OF UNFAIR COMPETITION §§ 39-45.

17. See RESTATEMENT OF UNFAIR COMPETITION § 39.

18. See RESTATEMENT OF UNFAIR COMPETITION § 39; see also UNIF. TRADE SECRETS ACT § 1(4), 14 U.L.A. 529, 538 (2005). The definition was not amended in 1985.

19. See *American Paper & Packaging Prods., Inc., v. Kirgan*, 183 Cal. App. 3d 1318, 1323-24, 228 Cal. Rptr. 713, 716 (Cal. Dist. Ct. App. 1986) (“We cannot agree with respondents’

Subsection (i) requires that a trade secret derive “actual or potential” “independent economic value” from not being “generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use.”²⁰ “Independent value derived from secrecy” can be shown by proof of both actual or potential value and secrecy.²¹

Subsection (ii) requires that a trade secret be the subject of efforts that are reasonable under the circumstances to maintain its secrecy.²² This aspect of the definition primarily²³ deals with whether a particular plaintiff has standing to maintain an action for trade secret misappropriation.

The UTSA definition of “misappropriation”²⁴ requires proof of a “trade secret” for misappropriation to be possible.²⁵ Actual or threatened misappropriation must exist for a remedy to be available under the UTSA.²⁶

A. *The UTSA Preemption Provision*

The 1979 version of UTSA Section 7(a), which preempts an enacting state’s conflicting duplicative tort, restitutionary, and other law creating civil liability for misappropriation of a trade secret, was

argument that the Legislature’s failure to include customer lists in its definition of trade secrets represents an intentional exclusion of same. The very language of Civil Code section 3426.1, subdivision (d), is inclusive, not exclusive.”) (California enactment).

20. UNIF. TRADE SECRETS ACT § 1(4)(i).

21. *See, e.g.,* *Electro-Craft Corp. v. Controlled Motion, Inc.*, 332 N.W.2d 890, 901 (Minn. 1983) (“[T]he [trial] court cited the time and money ECC reasonably expended in developing its motors. That ECC expended time and money between 1966 and 1975 in the development of the 1125 motor and its predecessors does not support a finding of competitive advantage unless, under the present state of the art, a prospective competitor could not produce a comparable motor without a similar expenditure of time and money. The trial court found . . . that such time and money *would* be required of a prospective competitor today The ECC 1125, therefore did provide ECC with economic value from its secrecy[.]”), *aff’d following remand on other grounds*, 370 N.W.2d 460 (Minn. Ct. App. 1985) (Minnesota enactment).

22. UNIF. TRADE SECRETS ACT § 1(4)(ii).

23. Proof of reasonable efforts to maintain secrecy also is evidence that information is secret. *See* RESTATEMENT (FIRST) OF TORTS §§ 757 cmt. b-759 & cmts. (AM. LAW INST. 1939) (The factors to be considered in determining whether a trade secret exists include “the extent of the measures taken . . . to guard the secrecy of the information.”).

24. UNIF. TRADE SECRETS ACT § 1(2).

25. *Id.* § 1(2)(i) (“‘Misappropriation’ means (i) acquisition of a trade secret of another.”).

26. *Id.* §§ 2-3 (Misappropriation must exist for damages to be recoverable, and actual or threatened misappropriation must exist for injunctive relief to be available). *Electro-Craft Corp.*, 332 N.W.2d at 897 (“[W]ithout . . . finding a trade secret, we cannot grant relief to ECC.”) (Minnesota enactment). A defendant can be awarded reasonable attorney’s fees if a plaintiff has claimed in bad faith that either threatened or actual misappropriation existed, see UNIF. TRADE SECRETS ACT § 4(i).

amended in 1985.²⁷ The 1985 changes were not substantive.²⁸ Section 7(a) of the 1985 Act provides:

Except as provided in subsection (b), this [Act] displaces conflicting tort restitutionary, and other law of this State providing remedies for misappropriation of a trade secret.²⁹

A conflict of authority exists as to whether Section 7(a) preempts an enacting state's civil remedies for misappropriation of information that does not satisfy the UTSA definition of trade secret.³⁰ Under the majority and better view, preemption exists.³¹

B. The Contract Exception to the UTSA Preemption Provision

The Section 7(b) exceptions from preemption were clarified by the 1985 amendments. The 1979 Act stated:

This [Act] does not affect:

- (1) contractual or other civil liability or relief that is not based upon misappropriation of a trade secret; or
- (2) criminal liability for misappropriation of a trade secret.³²

The amended 1985 Act provides:

This [Act] does not affect:

- (1) contractual remedies, whether or not based upon misappropriation of a trade secret;
- (2) other civil remedies that are not based upon misappropriation of a trade secret; or
- (3) criminal remedies, whether or not based upon misappropriation of a trade secret.³³

The 1985 Section 7(b)(1) Contract Exception may appear broader than the 1979 Act in excepting contract claims that are based upon misappropriation of a trade secret. In *Imaginative Research Associates*

27. UNIF. TRADE SECRETS ACT § 7(a) (1985 additions underlined; 1985 deletions struck through).

28. *Compare id.* § 7(a) ("This [Act] displaces conflicting tort, restitutionary, and other law of this State pertaining to civil liability for misappropriation of a trade secret.") *with* the 1985 version in the text *infra* note 29.

29. *Id.* § 7(a).

30. *Compare* *Burbank Grease Servs., LLC v. Sokolowski*, 717 N.W.2d 781, 793-94 (Wis. 2006) (no preemption) (Wisconsin enactment), *with* *Mortgage Specialists, Inc. v. Davey*, 904 A.2d 652, 666-67 (N.H. 2006) (preemption of civil remedies for misappropriation of information that does not qualify as a UTSA trade secret) (New Hampshire enactment).

31. *See generally* *Dole, Preemption*, *supra* note 2.

32. UNIF. TRADE SECRETS ACT § 7(b)(2).

33. *Id.* § 7(b)(3).

v. Ramirez,³⁴ a federal district judge, however, reasonably concluded that the Connecticut enactment of the 1979 statute was equally broad. A plaintiff's contract claims are not preempted even if "those claims are premised on Defendant's alleged misappropriation of trade secrets."³⁵ In reaching this conclusion, the federal district judge considered court decisions under enactments of the UTSA in other states,³⁶ which were relevant in Connecticut due to its adoption of the UTSA Section 8 Uniformity Clause providing:

This [Act] shall be applied and construed to effectuate its general purpose to make uniform the law with respect to the subject of this [Act] among states enacting it.³⁷

Alabama, Iowa, Nebraska, and New Mexico have omitted both Section 7 and the UTSA Uniformity Clause.³⁸ Nevertheless, depending upon the reasons for omitting these provisions, the general adoption of the UTSA by these four states should make well-reasoned decisions in other states under Section 7 persuasive. Nebraska, for example, omitted Section 7 because, at the time of enactment, there were no Nebraska statutes or cases in conflict with the UTSA.³⁹

Primarily in New York and California, James Pooley has noted case-law recognition of a breach of confidence theory of trade secret protection.⁴⁰ Whether the claim sounds in tort, contract implied in law,

34. *Imaginative Research Associates, Inc. v. Ramirez*, 718 F. Supp. 2d 236 (D. Conn. 2010) (Connecticut enactment); *accord* 3A Composites USA, Inc. v. United Indus., No. 5:14-CV-5147, 2015 WL 5437119, at *6 (W.D. Ark. Sept. 15, 2015) ("This Court is persuaded, for the same reasons given in *Ramirez*, that 'it is clear that [the ATSA] does not preempt...contract claims, regardless...whether those claims are premised on Defendants' alleged misappropriation of trade secrets."), *motion for reconsideration denied*, 2015 WL 11120888 (W.D. Ark. Nov. 4, 2015) (Arkansas enactment).

35. *Ramirez*, 718 F. Supp. 2d at 250. Section 7(b)(1) of the 1979 Act leaves open whether the qualification "not based upon misappropriation of a trade secret" applies to the Contract Exception in addition to "other civil liability or relief." *See* UNIF. TRADE SECRETS ACT § 7(b)(1).

36. *Ramirez*, 718 F. Supp. 2d at 249-50.

37. *See id.* at 249; *see also* UNIF. TRADE SECRETS ACT § 8. The Uniformity Clause was not amended in 1985. *See id.* The Connecticut enactment merely substituted "this chapter" for "this Act" in the Uniformity Clause. CONN. GEN. STAT. ANN. § 35-58 (2018 Supp.).

38. *See* ALA. CODE §§8-27-1 to 8-27-6 (1975), IOWA CODE §§550.1-550.8 (West 2018), NEB. REV. STAT. §§ 87-501 to 87-507 (West. 2018), N.M. STAT. ANN. §§57-3A-1 to 57-3A-7 (1989).

39. *See* Gerald B. Buechler, Jr., *Revealing Nebraska's Trade Secret Act*, 23 CREIGHTON L. REV. 323, 328-29 & n.31 (1989) (stating that the absence of existing Nebraska cases and statutes made § 7 "simply unnecessary" in Nebraska); *but see* 205 Corp. v. Brandow, 517 N.W.2d 548, 551-52 (Iowa 1994) ("Before adopting the uniform trade secrets Act, the legislature considered and chose to omit section 7 of the uniform act, which would have specifically displaced all other trade secret recoveries. We think it is clear that the omission was deliberate . . . Chapter 550 has not preempted all tort theories involving trade secrets.") (Iowa enactment).

40. JAMES POOLEY, TRADE SECRETS § 3.04[4], at 3-44 (Rel. 36, 2016).

or contract implied in fact is not clear.⁴¹ To the extent that the breach of confidence theory of trade secret protection is based upon an express or an implied-in-fact contract, cases recognizing this theory are within the Contract Exception.⁴²

C. *Necessary Exclusions from the Contract Exception*

Almost all restrictive employment covenants that are enforceable in an enacting state are protected from preemption by the Contract Exception. However, one type of contract is subject to preemption—a contract defining either a protectable UTSA “trade secret” or actionable UTSA “misappropriation” differently than the statute.⁴³ If this limitation is not recognized, the Contract Exception could destroy the uniformity that the UTSA was created to provide in derogation of the UTSA Section 8 Uniformity Clause.⁴⁴ Connecticut, for example, has a nonuniform amendment to 1979 Section 7(a) that could be read to allow parties to agree that UTSA Section 7(a) preemption will not take place.⁴⁵ But Connecticut’s enactment of the Section 8 Uniformity

41. *Id.*

42. Many breach of confidence theory cases involve liability imposed by law rather than voluntarily assumed liability. See, e.g., *Kamin v. Kuhnu*, 374 P.2d 912 (1962), in which the Court approved the following statement in a prior case:

[T]he defendants took unwarranted advantage of the confidence which the Schreyers reposed in them and obtained the desired knowledge without the expenditure of money, effort and ingenuity which the experimental analysis of the model on the market would have required. Such an advantage obtained through breach of confidence is morally reprehensible and a proper subject for legal redress.

(quoting *A. O. Smith Corp. v. Petroleum Iron Works Co.*, 73 F.2d 531 (6th Cir. 1934)).

43. See, e.g., *Millet v. Crump*, 687 So. 2d 132, 135-36 (La. App. 1996) (“[A]lthough the parties referred to the accounts sold by Crump as confidential and trade secrets, the testimony at trial establishes these were not confidential.”) (Louisiana enactment); see also *Sun Media Sys., Inc. v. KDSM, LLC*, 564 F. Supp. 2d 946, 965 (S.D. Iowa 2008) (“Plaintiff cannot . . . use the confidentiality clause in the KDSM contract to turn items into trade secrets that simply are not trade secrets under applicable law.”), *reconsideration denied on other grounds*, 576 F. Supp. 2d 1018 (S.D. Iowa 2008) (Iowa enactment). The notion that the parties can create a trade secret by contract also has been rejected at common law. See *Sarkes Tarzian, Inc. v. Audio Devices, Inc.*, 166 F. Supp. 250, 265 (S.D. Cal. 1958) (dictum), *aff’d per curiam*, 283 F. 2d 695 (1960), *cert. denied*, 365 U.S. 869 (1961) (“[M]atters which are generally known in the trade or readily discernible by those in the trade cannot be made secret by being so labeled in an agreement.”); see also *Dynamics Research Corp. v. Analytic Sci. Corp.*, 400 N.E.2d 1274, 1288 (Mass. Ct. App. 1980) (“[A]n agreement cannot make secret that which is not secret, and it remains for the court to determine whether an alleged trade secret is in fact such . . . Indeed, a non-disclosure agreement which seeks to restrict the employee’s right to use an alleged trade secret which is not such in fact or law is unenforceable as against public policy.”) (citation omitted).

44. See UNIF. TRADE SECRETS ACT § 8, 14 U.L.A. 529, 656 (2005). The UTSA Prefatory Note, for example, states in part, “The contribution of the Uniform Act is . . . unitary definitions of trade secret and trade secret misappropriation[.]” *Id.* at 531.

45. CONN. GEN. STAT. ANN. § 35-37(a) (“Unless otherwise agreed by the parties, the

Clause⁴⁶ requires reading the nonuniform amendment to refer to the Contract Exception.⁴⁷

D. The Tort Consequences of the Contract Exception

If an otherwise enforceable restrictive employment covenant falls within the Contract Exception, a tort action for intentional interference with that restrictive covenant is also shielded from preemption by the Exception.⁴⁸ *Hauck Manufacturing Co. v. Astec Industries*,⁴⁹ which rejects this approach,⁵⁰ does not even discuss the Contract Exception. The *Hauck Manufacturing* Court based its preemption analysis upon the UTSA's providing that misappropriation includes "breach or inducement of a breach of a duty to maintain secrecy."⁵¹ However, a contrary Seventh Circuit opinion states:

[t]he tort of inducing breach of a non-disclosure contract (the sort of contract independently protected by paragraph (b)(1) [the Contract Exception] is "not based upon misappropriation of a trade secret." It is based upon interference with the [protected] contract.⁵²

In sum, the Contract Exception includes tort actions for interfering with excepted contracts.

provisions of this chapter supersede any conflicting tort, restitutionary, or other law of this state pertaining to civil liability for misappropriation of a trade secret.").

46. *Id.* § 35-58.

47. *Id.* § 35-57(b)(1) ("This chapter does not affect: (1) Contractual or other civil liability or relief that is not based upon misappropriation of a trade secret[.]"). For judicial interpretation of the Connecticut Contract Exception, see notes 34 & 35 and accompanying text.

48. *See, e.g., Raven Indus. v. Lee*, 783 N.W.2d 844, 848-49 (S.D. 2010) (confidentiality covenants are protected by the Contract Exception; tort action for intentional interference with the confidentiality covenant and tort action for unfair competition based on the same facts are not preempted by the UTSA) (South Dakota enactment).

49. *Hauck Mfg. Co. v. Astec Indus., Inc.*, 375 F. Supp. 2d 649 (E.D. Tenn. 2004).

50. *Id.* at 659.

51. *Id.* The quoted language is from the UTSA definition of "improper means," which is incorporated into the UTSA definition of "misappropriation." *See* UNIF. TRADE SECRETS ACT § 1(1)-(2), 14 U.L.A. 529, 537 (2005).

52. *IDX Sys. Corp. v. Epic Sys. Corp.*, 285 F.3d 581, 586 (7th Cir. 2002) (tort action for intentional interference with a confidentiality covenant given by a customer to a supplier not preempted).

II. AN OVERVIEW OF RESTRICTIVE EMPLOYMENT COVENANTS

A. *General Principles*

1. The Relationship of Restrictive Covenants to the UTSA

In the absence of a restrictive covenant, a former employee is free to compete with his or her former employer provided that the competition does not involve unauthorized disclosure or unauthorized use of the former employer's protectable trade secrets.⁵³ According to the 2014 Restatement of Employment Law, a former employee also has a continuing common-law duty of loyalty to a former employer to protect the former employer's trade secrets.⁵⁴ In the jurisdictions that have adopted the UTSA, a former employee likewise is subject to liability under the Act for unauthorized disclosure or use of his or her former employer's trade secrets. When the UTSA is available as a remedy for trade secret misappropriation, former employers typically invoke it.

According to the Restatement of Employment Law, employers sue former employees for breach of their common-law duty of loyalty with respect to trade secrets primarily with respect to employment contracts governed by Massachusetts, New York, and North Carolina law,⁵⁵ the three states that have not enacted the UTSA.⁵⁶ But, if, as a commentator has asserted, the Restatement of Employment Law goes beyond the reported cases in attributing a continuing duty of loyalty to a former employee,⁵⁷ former employers must rely primarily upon restrictive employment covenants in transactions governed by the law of these three states.

2. Common Restrictive Covenants

Restrictive employment covenants limit an employee's freedom to compete with his or her employer both before and after termination of the employment relationship.⁵⁸ Among the common restrictive

53. See RESTATEMENT OF EMP'T LAW § 8.03 (AM. LAW INST. 2014).

54. See *id.* § 8.03(a).

55. See UNIF. LAW COMM'N, *supra* note 5.

56. See RESTATEMENT OF EMP'T LAW § 8.03.

57. See Michael Selmi, *The Restatement's Supersized Duty of Loyalty Provision*, 16 EMP. RTS. & EMP. POL'Y J. 395, 406 (2012) ("There are . . . no cases cited that impose a duty of loyalty after the employment relationship has ended; there are no cases relying on the duty of loyalty tort to protect either confidential information or trade secrets.").

58. Well-drafted restrictive employment covenants are obtained from current employees

employment covenants are covenants not to compete, covenants not to solicit business from customers of the employer, covenants not to solicit employment of the employer's employees, covenants not to disclose or to use the trade secrets of the employer, and covenants not to disclose or to use other confidential information of the employer.⁵⁹ Covenants not to disclose trade secrets and other confidential information sometimes are referred to as "nondisclosure agreements" (NDAs) or "confidentiality agreements."⁶⁰

3. Limitations Upon the Enforceability of Restrictive Covenants

Restrictive employment covenants are subject to general limitations upon the enforceability of contracts, like the necessity of bargained for consideration and the absence of a material breach of contract by the employer seeking to enforce the covenant. The enforceability of restrictive employment covenants also depends upon their effect upon a restricted former employee's ability to find appropriate work.

There is no consideration problem with respect to covenants entered into upon initial employment. Employment-at-will in exchange for a covenant is sufficient consideration.⁶¹ But, in a significant number

and cover both their conduct while employed and their conduct after termination of employment. *See, e.g., Von Rohr Equip. Corp. v. Tanner Bolt & Nut Corp.*, No. 17-CV-2913 (NGG)(RER), 2017 WL 5184676 (E.D.N.Y. Nov. 7, 2017) (Breach of contract claim dismissed without prejudice; a poorly-drafted employer confidentiality and trade secret policy that referred exclusively to "employee obligations" did not apply to a former employee.).

59. *See, e.g., Bio Imaging Techs., Inc. v. Marchant*, 584 F. Supp. 2d 322, 324-25 (D. Mass. 2008) (former employee had signed covenants not to compete, not to solicit former employer's customers, and not to disclose or to use confidential information); *Amp, Inc. v. Fleischhacker*, 823 F.2d 1199, 1202 (7th Cir. 1987) (confidentiality covenant included trade secrets); *Zep Mfg. Co. v. Harthcock*, 824 S.W.2d 654, 662 (Tex. Ct. App. 1992) (one nondisclosure covenant included trade secrets; whereas a second nondisclosure covenant excluded trade secrets); *Loral Corp. v. Moyes*, 174 Cal App. 3d 268, 274, 219 Cal. Rptr. 836, 840 (Cal. Ct. App. 1985) (covenant not to interfere with or to raid former employer's employees). Covenants not to raid a former employer's employees address employee turnover in high-technology firms. *See* David L. Simson, *Customers, Co-Workers and Competition: Employee Covenants in California After Edwards v. Arthur Anderson*, 4 HASTINGS SCI. & TECH. L.J. 239, 260 (2012).

60. *See* POOLEY, TRADE SECRETS § 3.04[3], *supra* note 40, at 3-42 ("[A]greements . . . that are specifically directed to maintaining the secrecy of information . . . typically are called nondisclosure or confidentiality agreements."). Nondisclosure and confidentiality agreements are the most common restrictive agreements between actual or potential business associates. *Almeling, Statistical Analysis Federal Courts*, *supra* note 12, at 322 ("With third parties such as suppliers or prospective suitors, the primary agreements are nondisclosure and confidentiality agreements.").

61. *See, e.g., Basiccomputer Corp. v. Scott*, 973 F.2d 507, 511 (6th Cir. 1992) ("When, as here, an employee begins work with the understanding that a covenant is a condition of employment, the covenant is adequately supported by consideration even if it is not signed until

of jurisdictions, a problem exists with respect to covenants agreed to an appreciable time after an employee has begun work,⁶² including later material modifications of covenants adopted at the beginning of employment. Nevertheless, under the weight of authority, continuing the employment of a prior at-will employee after he or she signs a restrictive covenant is sufficient consideration for an otherwise enforceable covenant.⁶³

Another potential obstacle to enforcing a restrictive covenant is employer misconduct. The Restatement of Employment Law gives the following example:

Employee E signs a restrictive covenant as part of a two-year employment agreement with employer X. The covenant states that E will not compete with X for one year after the termination of E's employment. X materially breaches the employment agreement by failing to pay E for several weeks, and E therefore quits. Even if the non-competition covenant were otherwise reasonable, X may not enforce it against E because E's quitting was in response to X's material breach of contract.⁶⁴

Restrictive employment covenants constrain both competition and a former employee's ability to work and, for enforceability, require justification by a protectable interest of the former employer.⁶⁵ Covenants not to compete impose the greatest restrictions and require the greatest justification.⁶⁶ Four states—California, Louisiana, North Dakota, and Oklahoma—restrict the enforceability of covenants not to compete to narrow circumstances.⁶⁷ Other states enforce covenants not to compete that are reasonable in view of the former employer's protectable interests,⁶⁸ which include protection of trade secrets,

later.") (covenant signed 10 days after employee began work).

62. See, e.g., *Freeman v. Duluth Clinic, Ltd.*, 334 N.W.2d 626, 630 (Minn. 1983) (covenant not to compete signed some three years after employment began unenforceable due to lack of consideration).

63. RESTATEMENT OF EMP'T LAW § 8.06 cmt. e (AM. LAW INST. 2014). See, e.g., *Computer Sales Int'l, Inc. v. Collins*, 723 S.W.2d 450, 452 (Mo. Ct. App. 1986) ("A continuance by employee in the employment of employer where he is under no obligation to remain and that continuance by the employer of the employment where continuance is not required supplies adequate consideration for a secondary contract.").

64. RESTATEMENT OF EMP'T LAW, § 8.06 cmt. g, illus. 16.

65. See *id.* § 8.06.

66. See Sharon K. Sandeen & Elizabeth A. Rowe, *Debating Employee Non-Competes and Trade Secrets*, 33 SANTA CLARA HIGH TECH. L.J. 438, 443 (2017) ("As a general rule, the more an individual is prevented from pursuing his or her trade or professional calling, the more suspect the agreement.").

67. *Id.*

68. *Id.* at 442-43.

protection of customer relationships, protection of an investment in the former employee's reputation in the market,⁶⁹ protection of the value of a business purchased from the former employee,⁷⁰ and protection of other confidential information. In order to be reasonable, a covenant not to compete must be "tailored in scope, geography, and time to further a protectable interest" of the former employer.⁷¹

Covenants not to disclose or to use a former employer's trade secrets and other confidential information typically impose a lesser burden upon competition and a former employee's job opportunities than a covenant not to compete and are more easily justified.⁷² The Georgia, Illinois, and Tennessee enactments of the UTSA, for example, contain a nonuniform amendment stating that a contractual duty to maintain secrecy or to limit the use of a trade secret shall not be deemed to be void or unenforceable solely for lack of a time or a geographical limitation upon the duty.⁷³ Some states require that covenants not to

69. For example, an employer can advertise the outstanding ability and professional standing of specific named employees, which, in effect, shares the employer's good will with the named employees. RESTATEMENT OF EMP'T LAW § 8.07 cmt. d (justifying a reasonable covenant not to compete).

70. *See id.* § 8.07(b).

71. *See id.* § 8.06.

72. A Texas Court of Appeals, for example, distinguished covenants not to compete and nondisclosure covenants as follows:

Noncompete covenants are different than nondisclosure covenants. Noncompete covenants restrain trade and are enforceable only if their terms are reasonable Nondisclosure covenants, on the other hand, are not restraints of trade. They do not necessarily restrict a former employee's ability to compete with the former employer. Nondisclosure covenants do not prohibit the former employee from using, *in competition with the former employer*, the general knowledge, skill, and experience acquired in the former employment.

Zep Mfg. Co. v. Harthcock, 824 S.W.2d 654, 663 (Tex. App. 1992) (emphasis original).

73. GA. CODE ANN. § 10-1-767(b)(1) (2009 & 2016 Supp.); 765 ILL. COMP. STAT. ANN. § 1065/8(b)(1) (2010 & 2017 Supp.); & TENN. CODE ANN. § 47-25-1708(b)(1) (2013). The Restatement of Unfair Competition likewise takes the position that nondisclosure agreements lacking time and geographical limitations can be reasonable, RESTATEMENT OF UNFAIR COMPETITION § 41 cmt. d (AM. LAW INST. 1995). According to the Restatement:

Once a secret is disclosed, knowledge of the information cannot normally be confined to a particular area. Unauthorized disclosure in any area can therefore result in harm to the trade secret owner. Similarly, unauthorized use in any area may deprive the owner of potential licensing opportunities. Thus, although the more onerous burden of a covenant not to compete is normally enforceable only if confined within appropriate geographic limits, an absolute prohibition against the use or disclosure of a trade secret is ordinarily justified The absence of an express duration on a promise not to use or disclose a trade secret should also not in itself render the agreement unenforceable since in the absence of a clear intention to the contrary a nondisclosure agreement is ordinarily interpreted as imposing an obligation of confidentiality only until the information becomes generally known or readily ascertainable by proper means.

Id.

disclose or to use trade secrets have scope, time, and geographical limitations,⁷⁴ whereas others do not.⁷⁵ Covenants not to disclose, or to use confidential information that is not a trade secret, are most likely not to be required to have scope, time, and geographical limitations.⁷⁶

B. The Dual Function of Covenants Not to Disclose or to Use Information

Covenants not to disclose or to use without authorization the trade secrets and other confidential information of a former employer have at least two functions. Under the UTSA, requiring employees with access to trade secrets to execute these covenants is evidence of the reasonable efforts to maintain secrecy that is required to justify trade secret rights.⁷⁷ With respect to confidential information that is not a trade secret, these covenants likewise are evidence of the reasonable

74. *See, e.g., AMP, Inc. v. Fleischhacker*, 823 F.2d 1199, 1202 (7th Cir. 1987) (confidentiality covenant that was broad enough to cover trade secrets without time and geographical limitations is unenforceable under Illinois law).

75. *See, e.g., Synergetics, Inc. v. Hurst*, 477 F.3d 949, 958-59 (8th Cir. 2007) (a confidentiality covenant that was broad enough to cover trade secrets not shown to require time and geographical limitations under Missouri law).

76. *But see Zep Mfg. Co. v. Harthcock*, 824 S.W.2d 654, 663 (Tex. App. 1992) (One nondisclosure covenant included trade secrets; the other was limited to confidential information that was not a trade secret. Neither covenant required time, geographical, and scope-of-activity limitations under Texas law).

77. *See UNIF. TRADE SECRETS ACT* § 1(4), 14 U.L.A. 529, 538 (2005) and accompanying text; *see, e.g., Avnet, Inc. v. Wyle Labs., Inc.*, 263 Ga. 615, 617, 437 S.E.2d 302, 304 (1993) (“[T]here was, in the instant case, evidence from which the trial court could have found that Avnet and Hall-Mark had made a reasonable effort to maintain the secrecy of the customer lists which the trial court determined to be a “trade secret.” There was evidence that the customer lists were not freely or widely disseminated and that certain employees to whom the information contained in the lists had been disclosed were required to sign agreements to keep the information secret. It is immaterial that some, but not all, employees were required to sign such agreements.”); *see generally Almeling, Statistical Analysis Federal Courts, supra* note 12, at 322-23 (“The data show that if the trade secret owner takes the following steps, a court is more likely to find that the owner engaged in reasonable efforts: (1) agreements with employees; (2) agreements with business partners; and (3) restricting access to certain persons[.]”). A companion analysis of state court cases confirmed that confidentiality agreements with employees and with actual and prospective business partners are the most important factors in the courts’ analysis of reasonable measures. *Almeling, Statistical Analysis State Courts, supra* note 12, at 82-83. However, reasonable measures can be proved without a restrictive employee covenant. *See Peo Experts CA, Inc. v. Engstrom*, No. 2:17-cv-00318-KJM-CKD, 2017 WL 4181130, at 6-7, 11-12 (E.D. Cal. Sept. 21, 2017) (preliminary injunction against misappropriation issued against a former employee that had not signed a restrictive employment covenant). If an employer requests that an employee sign a restrictive employment covenant but the employee refuses, at a minimum the employer must block the employee’s future access to trade secrets. *See Art & Cook, Inc. v. Haber*, No. 17-cv-1634 (LDH) (CLP), 2017 WL 4443549 at 3-4 (E.D.N.Y. Oct. 3, 2017) (motion for a DTSA preliminary injunction denied due to lack of likelihood of success on the merits; the plaintiff failed to bar access to trade secrets to employees who refused to sign a restrictive employment covenant).

efforts to maintain confidentiality that are necessary to enforce them.⁷⁸ On the other hand, under the Contract Exception, covenants not to disclose or to use without authorization the trade secrets and other confidential information of a former employer justify injunctive relief and the recovery of contract damages by the former employer.⁷⁹

To the extent that a covenant not to disclose or to use information protects trade secrets, the UTSA definition of “trade secret” is relevant to the significance of the justification. However, to the extent that a covenant not to disclose or to use confidential information protects information that is not a trade secret, the UTSA definition of “trade secret” is not relevant. Confidential information that is not a trade secret can justify a reasonable restrictive covenant.⁸⁰

But, a former employee’s signing of a confidentiality covenant does not mean that the former employer has kept the relevant information secret.⁸¹ A claim that a confidentiality covenant was breached by unauthorized disclosure or use of confidential information

78. See *infra* notes 82-83 and accompanying text.

79. See, e.g., *Simplified Telesys, Inc. v. Live Oak Telecom, LLC*, 68 S.W.3d 688, 692-93, 696 (Tex. App. 2002) (in former employer’s action for a preliminary and a permanent injunction against breach of a confidentiality covenant that covered both proprietary information and trade secrets, former employer presented more than a scintilla of evidence of breach; summary judgment for former employees and the corporation that they had formed reversed). The contract remedies available include both injunctive relief and damages. See, e.g., *Lumex, Inc., v. Highsmith*, 919 F. Supp. 624, 636 (E.D.N.Y. 1996) (former employer granted preliminary injunction restraining employment of former employee by a competitor for six months; a factor in the reasonableness of the restriction was that, if the former employee was unable to obtain other employment during the six-month period, the former employer would pay his monthly base pay at termination plus premiums for health and life insurance); see also *Mattern & Assoc. v. Seidel*, 678 F. Supp. 2d 256, 262, 266-68 (D. Del. 2010) (trial court upheld jury award of \$150,000 in stipulated damages for former employee’s breach of covenant not to compete).

80. See, e.g., *Modern Controls, Inc. v. Andreadakis*, 578 F.2d 1264, 1268-69 (8th Cir. 1978) (“The Minnesota Supreme Court has held that confidential business information which does not rise to the level of a trade secret can be protected by a properly drawn covenant not to compete.”); see also *Johns-Manville Corp. v. Guardian Indus. Corp.*, 586 F. Supp. 1034, 1074 (E.D. Mich. 1983), *aff’d mem.*, 770 F.2d 178 (Fed. Cir. 1985) (contract forbidding disclosure of secret or confidential information even if not patented or a trade secret enforceable under Michigan law); *Gary’s Auto Parts, Inc. v. Worden*, No. UWYCV095015363S, 2011 WL 383795 at *1 & *4 (Conn. Super. Ct. Jan. 4, 2011) (contract to refrain from disclosing or using former employer’s confidential information not preempted by the UTSA) (Connecticut enactment); *McKesson Medical-Surgical, Inc. v. Micro Bio Medics, Inc.*, 266 F. Supp. 2d 590, 596-97 (E.D. Mich. 2003) (“In this Court’s opinion, customer lists developed by the employee are not protectable trade secrets If an employer wishes to restrict an employee’s use of such information after the employment relationship is terminated, the employer must do it with an appropriate noncompetition agreement.”) (Michigan enactment).

81. *Rogerscasey, Inc. v. Nankof*, No. 02 Civ. 2599(JSR), 2003 WL 1964049 at *5 n.5 (S.D.N.Y. Apr. 24, 2003) (“The mere fact that the defendants signed confidentiality agreements is insufficient to demonstrate that the identified client information was kept secret.”) (applying California law).

requires proof similar to proof of a trade secret claim.⁸² A confidentiality covenant should be enforced only if the information sought to be protected actually is confidential, reasonable efforts have been made to keep it confidential,⁸³ and the former employer has a protectable interest in the information.⁸⁴

C. *The Effect of Restrictive Covenants in UTSA Litigation*

The enforceable terms of a restrictive employment covenant can limit the relief that is available under the UTSA. Restrictive employment covenants, especially covenants not to compete and other restrictive covenants that significantly limit a former employee's job opportunities, must contain reasonable limitations upon their scope, duration, and geographical coverage.⁸⁵ If a restrictive employment covenant permits disclosure of particular information to third parties, disclosure or use of that information is not trade secret misappropriation under the UTSA.⁸⁶

The duration of a restrictive employment covenant also can influence the duration of a UTSA injunction restraining trade secret misappropriation.⁸⁷ Furthermore, if an employment contract with one

82. *See, e.g.*, *SL Montevideo Tech., Inc. v. Eaton Aerospace, LLC*, 491 F.3d 350, 354 (8th Cir. 2007) ("A claim that a confidentiality agreement was breached by disclosure of a proprietary combination of data should require the same precision of proof as a comparable trade secret claim.") (applying Minnesota law to an alleged breach of a confidentiality covenant by a customer and affirming summary judgment for the defendant).

83. *See, e.g.*, *nClosures, Inc. v. Block & Co.*, 770 F.3d 598, 602 (7th Cir. 2014) ("[I]n order to enforce the confidentiality agreement between nClosures and Block, we must find that nClosures took reasonable steps to keep its proprietary information confidential.") (applying Illinois law and affirming summary judgment for the defendant); *contra* *Loftness Specialized Farm Equipment, Inc. v. Twiestmeyer*, 742 F.3d 845, 850-52 (8th Cir. 2014) (trial court reversed for granting summary judgment because plaintiff had not used reasonable efforts to keep information confidential: "Instead of applying the test for the tort of misappropriation . . . , the district court should have interpreted and applied the terms of the NDA.") (Minnesota enactment).

84. *See* RESTATEMENT OF EMP'T LAW § 8.07 cmt. b (AM. LAW INST. 2014) ("Courts will generally protect nonpublic commercial information that provides a clear economic advantage to the employer by virtue of its confidentiality, provided that the restrictive covenant is otherwise reasonable . . . and the information has been treated as confidential by the employer.").

85. *See* RESTATEMENT OF EMP'T LAW §8.06 cmt. e and accompanying text.

86. *See, e.g.*, *Morris Silverman Management Corp. v. Western Union Fin. Servs., Inc.*, 284 F. Supp. 2d 964, 992 (N.D. Ill. 2003) ("Where the parties have a contractual relationship that defines the duty of nondisclosure, the contract defines that duty for purposes of misappropriation under ITSA.") (Illinois enactment).

87. *See, e.g.*, *Xantrex Tech. Inc. v. Advanced Energy Indus.*, No. 07-cv-02324-WYD-MEH, 2008 WL 2185882 at *20, *22 (D. Colo. May 23, 2008) ("Xantrex seeks to enjoin Mr. Thompson from working in his current capacity at AE as a Vice-President and General Manager of Solar inverters for a period of one year. It seeks to start the clock on this period from the date of entry of an order. I find this to be reasonable in light of the one-year period in his employment agreement's noncompetition clause.") (Colorado enactment); *see also* *La Calhene, Inc. v. Spolyar*, 938 F. Supp. 523, 526, 528-29 & 531-32 (W.D. Wis. 1996) (covenant not to compete had one-

or more restrictive employment covenants is replaced by a termination agreement that includes a release of claims and an integration clause, depending upon its wording, the termination agreement could preclude both future claims under the restrictive covenant and future claims of UTSA trade secret misappropriation.⁸⁸

D. Suits for Both Breach of a Restrictive Covenant and Violation of the UTSA

Former employers frequently sue former employees for both breach of a restrictive employment covenant and violation of the UTSA.⁸⁹ In *Boeing Co. v. Sierracin Corp.*,⁹⁰ the defendant, a former supplier of the plaintiff, asserted that the trial court had erred in failing to consolidate the two claims and in allowing the jury to find the defendant liable upon both.⁹¹ The Washington Supreme Court responded that the claims had different elements as demonstrated by the Contract Exception and affirmed the trial court's refusal to consolidate.⁹² Nevertheless, if both claims are tried as in *Boeing*, double recovery must not be allowed.

With respect to injunctive relief, there is no double recovery problem, but the duration of a restrictive covenant can be considered to limit the duration of injunctive relief for trade secret misappropriation.⁹³ With respect to monetary relief, the same item of compensatory damages must not be recovered for both breach of contract and trade secret misappropriation.⁹⁴ Some states have an

year duration, court limited preliminary injunction under the UTSA to one year) (Minnesota enactment).

88. *Cf. Carboline Co. v. Lebeck*, 990 F. Supp. 762, 765-66 (E.D. Mo. 1997) (release of claims in termination agreement appeared to preclude future claims under restrictive employment covenant).

89. *See supra* note 10 and accompanying text.

90. *Boeing Co. v. Sierracin Corp.*, 108 Wash. 2d 38, 738 P.2d 665 (1987) (en banc); *accord*, *Ed Nowogroski Ins., Inc. v. Rucker*, 137 Wash. 2d 427, 437 n.2, 971 P.2d 936, 941 n.2 (1999) (en banc) ("The existence of a contract protecting trade secrets does not preclude a second cause of action in tort under the provisions defining trade secrets.") (Washington enactment); *contra* *Ins. Assoc. v. Hansen*, 111 Idaho 206, 210, 723 P.2d 190, 194 (Idaho App. 1986) ("Inasmuch as Insurance Associates is entitled to relief on its theory of breach of contract we need not discuss whether Insurance Associates might also have any right to recover for breach of a common-law duty or for violation of the Idaho Trade Secrets Act."), *appeal after remand aff'd on other grounds*, 116 Idaho 948, 782 P.2d 1230 (1989) (Idaho enactment).

91. *Boeing Co.*, 108 Wash. 2d at 47-48, 738 P. 2d at 673-74.

92. *Id.* ("[A] contractual provision designed to protect against disclosure would...not be subject to displacement by the Uniform Trade Secrets Act.")

93. *See supra* note 87 and accompanying text.

94. *See Mattern & Assoc. v. Seidel*, 678 F. Supp. 2d 256, 270 (D. Del. 2010) (the jury found that the defendant former employee had both breached a covenant not to compete and engaged in trade secret misappropriation but, in order to avoid double counting, awarded

election of remedy doctrine intended to prevent double recovery⁹⁵ that comes into play. For example, before a final judgment is entered, Virginia requires an election between a contract recovery and a tort recovery for the same conduct,⁹⁶ and North Carolina law does not allow judgment on more than one legal theory for the same conduct.⁹⁷

III. FEDERAL TRADE SECRET LEGISLATION

A. *The Economic Espionage Act*

1. Overview

On October 11, 1996, President Clinton signed the Economic Espionage Act (the EEA),⁹⁸ the first significant federal statute specifically criminalizing trade secret theft.⁹⁹ The EEA is a combination of two bills, one dealing with economic espionage intended to benefit foreign governments, foreign instrumentalities, or foreign agents,¹⁰⁰ and the other dealing with trade secret theft affecting interstate or foreign commerce.¹⁰¹ Both bills initially referred to “proprietary economic information,”¹⁰² with a definition modeled upon the UTSA definition of trade secret.¹⁰³ The enacted statute applies to both economic espionage involving “trade secrets” and theft of “trade secrets.”¹⁰⁴

Section 1831, the economic espionage provision, requires that an actor either intend or know that the actor’s conduct “will benefit a foreign government, a foreign instrumentality, or a foreign agent.”¹⁰⁵

compensatory damages only for breach of the restrictive covenant).

95. *See X Prod., L.L.C. v. Walter Kidde Portable Equip., Inc.*, 227 F. Supp. 2d 494, 524 (E.D. Va. 2002) (“The doctrine is remedial in nature and does no more than prevent double recovery.”).

96. *Id.*; *see also id.* at 523 (“It is well settled under Virginia Law that a plaintiff may not recover in both Tort and Contract for the same conduct of the Defendant.”).

97. *Id.* at 523 (“Under North Carolina law, as under Virginia law, a plaintiff may not recover on more than one theory for the same course of conduct.”).

98. Economic Espionage Act of 1996, Pub. L. No. 104-294, 18 U.S.C. §§ 1831-39 (2012) (amended 2016).

99. POOLEY, TRADE SECRETS § 13.03, *supra* note 40, at 13-7.

100. S. 1557, 104th Cong. (1996) (proposing the Economic Security Act of 1996).

101. S. REP. NO. 104-359 (1996) (discussing S. 1556, 104th Cong. (1996) proposing the Industrial Espionage Act of 1996).

102. *Id.* at 2 (discussing S. 1556). S. 1557 (the proposed Economic Security Act of 1996, added “vital” to the phrase). S. 1557, 104th Cong. § 901(4) (1996) (definition of “vital proprietary economic information”).

103. S. REP. NO. 104-359 at 16 (“This definition is closely modeled on the definition of a ‘trade secret’ in the Uniform Trade Secrets Act.”).

104. 18 U.S.C. §§ 1831(a), 1832(a) (2012).

105. *Id.* § 1831(a).

Section 1832, the trade secret theft provision, requires an intent to convert a trade secret related to a product or service used in, or intended for use in, interstate or foreign commerce to the economic benefit of a person other than its owner either intending or knowing that the trade secret owner will be injured.¹⁰⁶

The penalties are severe. Violation of Section 1831, the economic espionage provision, can subject an individual defendant to a fine of up to \$5,000,000 or 15 years imprisonment, or both,¹⁰⁷ and an organization defendant to a fine of the greater of \$10,000,000 or three times the value of the stolen trade secret to the organization, including costs saved.¹⁰⁸ Violation of Section 1832, the trade secret theft provision, can subject an individual defendant to a maximum fine of two times the gross gain from the offense, or two times the gross loss from the offense, or \$250,000, whichever is greater, or imprisonment for up to 10 years, or both fine and imprisonment.¹⁰⁹ An organization defendant can be fined the greater of \$5,000,000 or three times the value of the stolen trade secret to the organization, including costs saved.¹¹⁰

Attempts and conspiracies to violate both provisions have the same penalties as full-blown violations.¹¹¹ Moreover, a defendant can be convicted of an attempt or a conspiracy based upon evidence that the defendant believed that information was a trade secret. The United States need not prove that a statutory trade secret actually existed.¹¹² In addition, the property involved in and derived from misappropriation is subject to forfeiture,¹¹³ and a convicted defendant must pay restitution to a victim.¹¹⁴

Both provisions share a definition of “trade secret” based on the UTSA:

106. *Id.*

107. *Id.*

108. *Id.* § 1831(b).

109. *Id.* § 1832(a) (since the EEA does not specify the maximum fine for individual violators, the general felony maximum applies); 18 U.S.C. § 3571(e) (2012) (an individual can be fined a maximum of either two times the gross gain or two times the gross loss caused by the offense, or \$250,000, whichever is larger) *Id.* § 3571(b)(2)-(3), (d).

110. *Id.* § 1832(b), *amended by* Defend Trade Secrets Act, Pub. L. No. 114-153, §§ 1-7, 130 Stat. 376-86 (2016).

111. *See id.* §§ 1831(a)(4)-(5), 1832(a)(4)-(5).

112. *See, e.g.,* United States v. Hsu, 155 F.3d 189, 204 (3d Cir. 1998) (“[P]roof that the defendants sought to steal actual trade secrets is not an element of the crimes of attempt or conspiracy under the EEA.”); *see also* United States v. Hsu, 40 F. Supp. 2d 623, 630-31 (E.D. Pa. 1999) (denying a motion to dismiss an EEA indictment due to the vagueness of the EEA definition of trade secret because the defendant was charged only with attempt and conspiracy).

113. 18 U.S.C. §§ 1834, 2323(a)(1) (2012).

114. *Id.* §§ 1834, 2323(c), 3663A(a)(1).

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.¹¹⁵

The EEA's illustrative list¹¹⁶ of the forms and types of information that can be a trade secret is more elaborate than the UTSA's illustrative

115. *Id.* § 1839(3), amended by Defend Trade Secrets Act; H.R. REP. NO. 104-788, at 12 (1996) (“The definition of the term ‘trade secret’ is based largely on the definition of that term in the Uniform Trade Secrets Act.”). As intended, the 2016 amendment brought the EEA definition into greater conformity with the UTSA, which refers to trade secrets as information not generally known to, and not readily ascertainable by proper means by, “persons who can obtain economic value from its disclosure or use.” UNIF. TRADE SECRETS ACT § 1(4), 14 U.L.A. 529, 538 (2005). Both the Senate and the House Judiciary Committee Reports on the DTSA state:

The intent of Section 2(b)(1)(A)—striking “the public” and inserting “another person who can obtain economic value from the disclosure or use of the information”—is to bring the Federal definition of a trade secret in conformity with the definition used in the Uniform Trade Secrets Act (“UTSA”).

S. REP. NO. 114-220, at 10 (2016); H.R. REP. NO. 114-529, at 13 (2016).

Prior to the amendment, the test for secrecy was whether information was readily known to or readily ascertainable by “the public.” 18 U.S.C. § 1839(3). The federal courts discussed in dicta whether this was a marked departure from the Uniform Act but never definitively resolved the issue. In *United States v. Lange*, 312 F.3d 263 (7th Cir. 2002), for example, Judge Easterbrook commented:

A problem with using the general public as the reference group for identifying a trade secret is that many things unknown to the public at large are well known to engineers, scientists, and others whose intellectual property the Economic Espionage Act was enacted to protect Section 1839(3)(B) replaces “persons who can obtain economic value from its disclosure or use” with “the public.” The prosecutor believes that the substitution supports the conclusion that Congress referred to the *general* public. Yet one could say instead that “the public” is shorthand for the longer phrase, which then would be read as “the *economically relevant* public”—that is, the persons whose ignorance of the information is the source of its economic value.

Id. at 267 (dicta) (emphasis original).

116. H.R. REP. NO. 104-788, at 12 (1996) (“These general categories of information are included in the definition of trade secret for illustrative purposes and should not be read to limit the definition of trade secret. It is the Committee’s intent that this definition be read broadly.”).

list, but that is not a substantive difference.¹¹⁷ Nor is the EEA's express reference to "intangible" trade secrets and "whether or how" memorialized a departure from the UTSA. Deliberately memorizing a trade secret that has not been memorialized physically is actionable under the UTSA.¹¹⁸ For example, in *Ed Nowogroski Insurance, Inc. v. Rucker*,¹¹⁹ a Supreme Court of Washington en banc decision, the Court stated:

The form of information, whether written or memorized, is immaterial under the...Uniform Trade Secrets Act [which] makes no distinction about the form of trade secrets. Whether the information is on a CD, a blueprint, a film, a recording, a hard paper copy or memorized by the employee, the inquiry is whether it meets the definition of trade secret under the Act and whether it was misappropriated.¹²⁰

2. The Need for the DTSA

Notwithstanding its expansive language and severe criminal penalties, the EEA is sparingly used by the U.S. Justice Department. A 2012 analysis of enforcement actions reported approximately 124 prosecutions in the sixteen years since enactment—an average of less than eight a year.¹²¹ Prosecutions had occurred in less than 45% of federal judicial districts.¹²² Less than 10% of the prosecutions involved economic espionage, and more than 90% involved trade secret theft.¹²³ However, a significant number of potential economic espionage cases

117. James H.A. Pooley, Mark A. Lemley & Peter J. Toren, *Understanding the Economic Espionage Act of 1996*, 5 TEX. INTELL. PROP. L.J. 177, 189 (1997) ("Because of the expansive interpretation already given to the UTSA definition, the EEA will probably apply to the same types of information[.]"); see also POOLEY, TRADE SECRETS, *supra* note 40, at 2-47 ([Notwithstanding the differences in the definitions, they represent] "no real difference, since the examples from each can all be read into the other.").

118. RESTATEMENT OF EMP'T LAW § 8.02 Reporters' Notes to cmt. g (AM. LAW INST. 2014) ("[M]ore than 40 states have adopted the UTSA in a substantially similar form and the majority position is that memorized information can be the basis for a trade-secret claim.").

119. *Ed Nowogroski Ins., Inc. v. Rucker*, 137 Wash. 2d 427, 971 P.2d 936 (1999) (en banc) (Washington enactment).

120. *Id.* at 449-50, 971 P.2d at 948; accord *Al Minor & Assoc. v. Martin*, 117 Ohio St.3d 58, 64, 881 N.E.2d 850, 855 (2008) ("[I]nformation ... is protected by the UTSA, regardless of the manner, mode, or form in which it is stored—whether on paper, in a computer, in one's memory, or in any other medium.") (Ohio enactment); see also *Stampede Tool Warehouse, Inc. v. May*, 272 Ill. App. 3d 580, 590, 651 N.E.2d 209, 217 (1st. Dist.), *appeal denied*, 163 Ill.2d 589, 657 N.E.2d 639 (1995) ("[M]emorization is one method of misappropriation.") (Illinois enactment).

121. Peter J. Toren, *An Analysis of Economic Espionage Act Prosecutions*, 84 BNA PAT., TRADEMARK & COPYRIGHT J. 884, 885 (2012).

122. *Id.* at 886.

123. *Id.* at 886-87.

were prosecuted as trade secret theft cases, which were easier to prove.¹²⁴

The sparse number of annual prosecutions suggested that the EEA had not been a major deterrent to trade secret theft.¹²⁵ This, plus testimony that serious trade secret misappropriation was occurring¹²⁶ resulted in Congressional enactment of the DTSA, which President Obama signed on May 11, 2016.¹²⁷ The new federal statute amended the EEA, most importantly¹²⁸ by adding a federal private civil remedy,¹²⁹ and by changing the EEA definition of trade secret.¹³⁰

B. The Defend Trade Secrets Act

1. Overview

The centerpiece of the DTSA is the creation of a federal private civil action for trade secret misappropriation involving a product or a service related to interstate or foreign commerce:

An owner of a trade secret that is misappropriated may bring a civil action under this subsection if the trade secret is related

124. *Id.* at 887.

125. *Id.* at 886 (“[E]nhancing the certainty of punishment produces a stronger deterrent effect than enhancing the severity of the punishment.”).

126. *See, e.g.*, H.R. REP. No. 114-529, at 3 (2016) (“Trade secrets are an integral part of a company’s competitive advantage in today’s economy, and with the increased digitization of critical data and increased global trade, this information is highly susceptible to theft General Keith Alexander, former head of the National Security Agency and U.S. Cyber Command, estimated that U.S. companies lose \$250 billion per year due to the theft of their intellectual property.”).

127. Defend Trade Secrets Act, Pub. L. No. 114-153, §§ 1-7, 130 Stat. 376-86 (2006).

128. The DTSA also includes provisions: (1) increasing the maximum fine for an organization engaged in criminal trade secret theft; (2) adding criminal economic espionage and criminal trade secret theft to the predicate acts for RICO violations; (3) requiring the U.S. Attorney General to report to the U.S. House and Senate Judiciary Committees and to make public not later than one year after the date of enactment and biannually thereafter recommendations with respect to the theft of trade secrets from U.S. companies outside the U.S., including the protections afforded by U.S. trading partners and progress with respect to trade agreements and treaties dealing with the problem; and (4) requiring the Federal Judicial Center to recommend to the U.S. House and Senate Judiciary Committees not later than two years after the date of enactment and thereafter from time to time best practices for the seizure, securing, and storing of information. *Id.* §§ 3-4, 6-7, 130 Stat. 382-86.

129. 18 U.S.C. § 1836(b) (2012). The existence of this new federal civil remedy may result in even fewer EEA criminal prosecutions. U.S. Attorney prosecution guidelines disfavor prosecuting cases in which the victim has a meaningful civil remedy. Toren, *supra* note 121, at 886.

130. 18 U.S.C. § 1839(5)(B) (amended 2016). This amendment conformed the EEA definition of trade secret with the UTSA definition by requiring that a trade secret derive economic value from not being generally known to, and not being readily ascertainable by proper means by, persons who can derive economic value from its disclosure or use. *See supra* note 115 and accompanying text.

to a product or service used in, or intended for use in, interstate or foreign commerce.¹³¹

Most of the federal private remedies for trade secret misappropriation are derived from the UTSA.¹³² However, in extraordinary circumstances, the DTSA also authorizes *ex parte* application for court-ordered seizure of property in order to prevent the propagation or dissemination of a trade secret.¹³³ Among the statutory safeguards against abuse of this extraordinary remedy¹³⁴ are the requirement of an affidavit or a verified complaint and judicial findings that it clearly appears from specific facts that: (1) equitable relief is inadequate because the party against whom seizure is ordered would evade, avoid, or otherwise not comply; (2) immediate and irreparable injury will occur if seizure is not ordered; (3) the harm to the applicant from denying the application will outweigh the harm to the legitimate interests of the person against whom seizure is ordered and substantially outweigh the harm to third parties; (4) the applicant is likely to succeed in showing that the information at issue is a trade

131. 18 U.S.C. § 1836(b)(1). The phrasing of the interstate or foreign commerce nexus for federal court jurisdiction is identical to that in the EEA criminal trade secret theft provision. *See supra* note 109 and accompanying text; S. REP. NO. 114-220, at 5 (2016); H.R. REP. NO. 114-529, at 9 (2016) (“This jurisdictional nexus to interstate or foreign commerce is identical to the existing language required for Federal jurisdiction over the criminal theft of a trade secret under §1832(a).”).

132. *See* 18 U.S.C. § 1836(b)(3) (regarding injunctive relief, damages, and, in the event of willful and malicious misappropriation, exemplary damages, plus, in the court’s discretion, a successful plaintiff’s reasonable attorney’s fees. Reasonable attorney’s fees also can be awarded if a claim of misappropriation is made in bad faith or a motion to terminate an injunction is either made or opposed in bad faith). The injunctive and damage provisions are “drawn directly” from the UTSA, and the exemplary damage and attorney’s fee provisions are “similar to” and “modeled on” the UTSA. S. REP. NO. 114-220, at 8-9 (2016); H.R. REP. NO. 114-529, at 12-13 (2016). A special limitation, which is intended to protect employee mobility, states that the terms of an injunction shall not:

- (I) 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 that the person knows; or
- (II) otherwise conflict with an applicable State law prohibiting restraints on the practice of a lawful profession, trade, or business.

18 U.S.C. § 1836(b)(3)(A)(i).

133. *Id.* § 1836(b)(2).

134. In commenting upon the version of the *ex parte* seizure provision that appeared in the 2015 bill proposing the DTSA, Professor Eric Goldman concluded:

Given the unique attributes of trade secrets that make plaintiffs’ self-serving statements impossible for judges to evaluate independently, additional procedural mechanisms are not enough to reduce the risk of errors . . . [I]t would make sense to strip the Seizure Provision from the Act.

Eric Goldman, *Ex Parte Seizures and the Defend Trade Secrets Act*, 72 WASH. & LEE L. REV. ONLINE 284, 307 (2015), http://bit.do/DTSA_Goldman.

secret that the person against whom seizure is ordered either misappropriated by improper means or conspired to use improper means to misappropriate; (5) the person against whom seizure is ordered has actual possession of the trade secret and the other property to be seized; (6) the application describes with reasonable particularity the matter to be seized, and, to the extent reasonable, its location; (7) if prior notice were given, the person against whom seizure is ordered or confederates will destroy, move, hide, or otherwise make inaccessible the property to be seized; and (8) the applicant has not publicized the requested seizure,¹³⁵ as publication could signify improper motivation. The court can require the applicant to provide adequate security for resulting liability.¹³⁶

A hearing upon the propriety of an ex parte seizure at which the applicant has the burden of proof ordinarily is held no later than seven days after the order is issued,¹³⁷ and a person harmed by the order can move for its dissolution or modification at any time.¹³⁸ Damage liability is imposed for wrongful or excessive seizure.¹³⁹ All seized material is in the custody of the court.¹⁴⁰ Two commentators summed up the first year of experience with the DTSA seizure provision as follows:

The very few cases in which seizure was granted demonstrate that a finding of extraordinary circumstances will likely be limited to cases in which, for instance, a plaintiff can prove that a defendant is likely to violate a court order for preservation of materials.¹⁴¹

135. 18 U.S.C. § 1836(b)(2)(A).

136. *Id.* § 1836(b)(2)(B)(vi). The amount of security required does not limit the damages recoverable for wrongful or excessive seizure. *Id.* § 1836(b)(2)(G).

137. *Id.* § 1836(b)(2)(B)(v), (F)(i).

138. *Id.* § 1836(b)(2)(F)(iii).

139. *Id.* § 1836(b)(2)(G).

140. *Id.* § 1836(b)(2)(D)(i).

141. JOHN M. CALLAGY & DAMON W. SUDEN, *Torts of Competition*, § 121:9.50, in *BUSINESS AND COMMERCIAL LITIGATION IN FEDERAL COURTS* (Robert L. Haig ed., 4th ed., 2017).

Another innovation is the DTSA “whistle blower” provisions.¹⁴² Section 1833¹⁴³ creates civil and criminal immunity under both federal and state law for confidentially disclosing a trade secret to a federal, state, or local governmental official or to an attorney solely for the purpose of reporting or investigating a suspected violation of law¹⁴⁴ or in a document filed under seal in a lawsuit or another proceeding,¹⁴⁵ including a lawsuit challenging retaliation by an employer for reporting a suspected violation of law.¹⁴⁶

The whistleblower immunity provisions are the only aspect of the DTSA that preempts state law.¹⁴⁷ Furthermore, employers are required to give notice of the immunity in either a contract with an employee that governs the use of a trade secret or by a cross reference to another document provided to the employee dealing with the employer’s policy with respect to reporting suspected violations of law.¹⁴⁸ Employers cannot recover either punitive damages or attorney’s fees in a DTSA

142. See Jessica Engler, *The Defend Trade Secrets Act at Year One*, IN-HOUSE DEFENSE Q. 20, 23 (2017) (the DTSA has whistleblower immunity provisions). The whistleblower provisions are based on a prior version of Peter S. Menell, *Tailoring a Public Policy Exception to Trade Secret Protection*, 105 CALIF. L. REV. 1 (2017).

Immunity extends beyond employee revelations during investigations of their employers. Unless narrowed by the courts, an Apple employee could be immunized from liability for disclosing trade secrets to the FBI in a criminal investigation of a third party; for example, for disclosing how to unlock an Apple watch owned by a bank robber, see Jordan J. Altman et al., *License to Leak: The DTSA and the Risks of Immunity*, 28 INTELL. PROP. & TECH. L.J. 6, 7 (2016) (“[I]t does not restrict immunity to those disclosures of trade secrets made within the context of an investigation of the trade secret owner.”).

143. 18 U.S.C. § 1833 (amended 2016).

144. *Id.* § 1833(b)(1)(A). In *Unum Group v. Loftus*, 220 F. Supp. 3d 143 (D. Mass. 2016), a federal district judge denied a former employee’s motion to dismiss federal and state claims for trade secret misappropriation based upon the whistleblower defense. The judge considered that there were insufficient record facts to support the defense:

There has been no discovery to determine the significance of the documents taken or their contents, and Loftus has not filed any potential lawsuit that could be supported by the information in those documents. Further, it is not ascertainable from the complaint whether Loftus turned over all of Unum’s documents to his attorney, which documents he took and what information they contained, or whether he used, is using, or plans to use, those documents for any purpose other than investigating a potential violation of law.

Id. at 147.

145. 18 U.S.C. § 1833(b)(1)(B).

146. *Id.* § 1833(b)(2). There is no immunity if an employee gained unauthorized access to a trade secret or other confidential information through an act prohibited by law. *Id.* § 1833(b)(5).

147. *Id.* § 1838 (“except” clause). Since the whistleblower immunity provisions preempt conflicting state law, a plaintiff cannot avoid them by suing under the UTSA rather than the DTSA.

148. *Id.* § 1833(b)(3)(A)-(B). The notice requirement applies only to contracts governing use of trade secrets or confidential information either entered into or updated after May 11, 2016 the effective date of the DTSA. *Id.* § 1833(b)(3)(D).

action against an employee who was not given sufficient notice.¹⁴⁹ The “employees” entitled to notice of whistleblower immunity include contractors or consultants.¹⁵⁰

The DTSA defines “misappropriation” for purposes of the federal private civil action in accord with the UTSA.¹⁵¹ The broader EEA tests for criminal economic espionage and criminal trade secret theft are not used.¹⁵²

The new federal private civil action for trade secret misappropriation generally does not preempt state law, including the UTSA.¹⁵³ Federal courts have federal question jurisdiction of actions under the federal statute,¹⁵⁴ and state courts have concurrent jurisdiction.¹⁵⁵ Federal and state court cases can include claims under both the federal statute and a state enactment of the UTSA.¹⁵⁶ However, suing under the federal statute alone does not permit a plaintiff to assert noncontractual state legal claims preempted by state enactment of the

149. *Id.* § 1833(b)(3)(C).

150. *Id.* § 1833(b)(4).

151. *Id.* § 1839(5). Both the Senate and House Judiciary Committee Reports on the Act contain the following statement:

[M]isappropriation is defined identically in all relevant respects to the definition of misappropriation in § 1(2) of the UTSA. The Committee intentionally used this established definition to make clear that this Act is not intended to alter the balance of current trade secret law or alter specific court decisions.

S. REP. NO. 114-220, at 10 (2016); H.R. REP. NO. 114-529, at 14 (2016).

152. *See* 18 U.S.C. §§ 1831(a)(1)-(3), 1832(a)(1)-(3). These EEA definitions of wrongful conduct are broader than UTSA misappropriation. *See* Zoe Argento, *Killing the Golden Goose: The Dangers of Strengthening Domestic Trade Secret Rights in Response to Cybermisappropriation*, 16 YALE J.L. & TECH. 172, 227 (2014) (“[T]he EEA’s version of misappropriation criminalizes many forms of conduct that would be deemed fair competition and therefore lawful under the UTSA.”).

153. *Defend Trade Secrets Act*, Pub. L. No. 114-153, § 2(f), 130 Stat. 382 (2016) (providing that the federal private civil action amendments do not alter 18 U.S.C. § 1838, which states that the EEA does not preempt state civil remedies); *id.* § 7(b), 130 Stat. at 385-86 (preempting state law inconsistent with the DTSA whistleblower immunity provisions, is the sole exception).

154. 18 U.S.C. § 1836(c) (federal district courts have original jurisdiction of civil actions under the DTSA).

155. *Claffin v. Houseman*, 93 U.S. 130, 136 (1876) (“[I]f exclusive [federal court] jurisdiction be neither express nor implied, the State courts have concurrent jurisdiction [of federal claims] whenever, by their own constitution, they are competent to take it.”); *see also* *Tafflin v. Levitt*, 493 U.S. 455, 458-460 (1990) (state courts have concurrent jurisdiction over civil RICO claims). However, a defendant sued in state court under the DTSA can remove the action to federal court on the basis of federal question jurisdiction. *See* 28 U.S.C. § 1441(a)-(b) (2012).

156. As of September 27, 2016, most of the initial DTSA cases were filed in federal court but relief seemed primarily to be sought for a companion claim under a state enactment of the UTSA, Scott Graham, *Errant Email Leads to Conn. Trade Secrets Suit*, LAW.COM (Sept. 27, 2016), <http://bit.do/errant-email-suit> (“Like most DTSA cases we’ve seen so far, it’s going to be decided under the forum state’s version of the law.”).

UTSA.¹⁵⁷ The preemptive effect of the UTSA upon the other law of an enacting state is not dependent upon the assertion of a UTSA claim.¹⁵⁸

The legislative history of the DTSA is replete with assertions that the statute would increase the uniformity of American trade secret law.¹⁵⁹ Because the federal definitions of both trade secret and misappropriation are consistent with the UTSA,¹⁶⁰ this will occur only if federal and state courts look to well-reasoned decisions under the UTSA to construe the federal statute.¹⁶¹

The legislative history indicates that this is what Congress intended. In addition to proposing legislation that tracked the UTSA definitions of trade secret and misappropriation,¹⁶² both the Senate and House Judiciary Committees issued reports stating that there was no intention to alter the result of court decisions under the UTSA:

157. The Official Text of the UTSA preempts duplicative tort, restitutionary, and other noncontractual law of an enacting state that provides a civil remedy for misappropriation of a trade secret. UNIF. TRADE SECRETS ACT § 7(a), 14 U.L.A. 529, 651 (2005). Alabama, Iowa, Nebraska, and New Mexico have omitted the UTSA preemption clause and there is split of judicial authority as to its scope in enacting states. The majority view preempts noncontractual legal claims protecting business information, whether or not the business information satisfies the UTSA definition of trade secret; whereas the minority view preempts noncontractual legal claims protecting business information only if the business information satisfies the UTSA definition of trade secret. *See generally* Dole, *Preemption*, *supra* note 2, at 108-10. The minority view can run afoul of federal patent preemption. *See generally* Charles Tait Graves & Elizabeth Tippet, *UTSA Preemption and The Public Domain: How Courts Have Overlooked Patent Preemption of State Law Claims Alleging Employee Wrongdoing*, 65 RUTGERS L. REV. 59 (2012). Federal copyright preemption also limits application of the minority view. *See id.* at 64 n.4.

158. *See* UNIF. TRADE SECRETS ACT § 7(a); PHA Lighting Design, Inc. v. Kosheluk, No. 1:08-cv-01208-JOF, 2010 WL 1328754 at *10-*11 (N.D. Ga. Mar. 30, 2010) (preempting unjust enrichment and conversion claims even though there was no claim of trade secret misappropriation) (Georgia enactment).

159. *See, e.g.*, 162 CONG. REC. S1630 (daily ed. Apr. 4, 2016) (“Our Defend Trade Secrets Act creates a single national baseline, or a minimal level of protection, and gives trade secret owners access to both a uniform national law and to the reach of the Federal courts[.]”) (remarks of Sen. Coons); 162 CONG. REC. H2032 (daily ed. Apr. 27, 2016) (“S. 1890 would provide trade secrets owners access to uniform national law and the ability to make their case in Federal court.”) (remarks of Rep. Conyers).

160. *See infra* note 162 and accompanying text.

161. *See* David S. Almeling, *Four Reasons to Enact a Federal Trade Secrets Act*, 19 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 769, 796 (2009) (“One could argue that an FTSA [federal trade secret act] would, upon passage, create a vacuum in which there would be no precedent to apply An FTSA will . . . not create a complete vacuum, as courts will be able to incorporate and use UTSA-based precedent.”). One commentator has observed that, even with the aid of UTSA precedent, “the DTSA will create uncertainty for decades.” Sharon K. Sandeen, *The DTSA: The Litigator’s Full-Employment Act*, 72 WASH. & LEE L. REV. ONLINE 308, 320 (2015).

162. The intent is to bring the federal definition of a trade secret in conformity with the definition in the UTSA. “[M]isappropriation” is defined identically in all relevant respects to the definition of misappropriation in § 1(2) of the UTSA, S. REP. NO. 114-220, at 10 (2016); H.R. REP. NO. 114-529, at 13-14 (2016).

While . . . minor differences between the UTSA and the Federal definition of a trade secret remain, the Committee does not intend for the definition of a trade secret to be meaningfully different from the scope of that definition as understood by courts in States that have adopted the UTSA . . . “[M]isappropriation” is defined identically in all relevant respects to the definition of misappropriation in § 1(2) of the UTSA. The Committee intentionally used this established definition to make clear that this Act is not intended to alter the balance of current trade secret law or alter specific court decisions.¹⁶³

2. The DTSA Equivalent of the UTSA Contract Exception

The DTSA has no counterpart of UTSA Section 7(a), which preempts duplicative enacting state tort, restitutionary, and other civil remedies for trade secret misappropriation.¹⁶⁴ However, there is a DTSA counterpart of the UTSA Section 7(b) Contract Exception.¹⁶⁵ DTSA Section 1838 essentially creates a general presumption of nonpreemption and nondisplacement:

Except as provided in section 1833(b),¹⁶⁶ this chapter shall not be construed to preempt or displace any other remedies, whether civil or criminal, provided by United States Federal, State, commonwealth, possession, or territory law for the misappropriation of a trade secret or to affect the otherwise lawful disclosure of information by any Government employee under . . . the Freedom of Information Act.¹⁶⁷

Another DTSA provision subordinates the injunctive provisions of the federal private action to state limitations upon restrictive employment covenants. Section 1836(b)(3)(A)(i)(II) provides:

163. S. REP. NO. 114-220, at 14.

164. See UNIF. TRADE SECRETS ACT § 7(a), 14 U.L.A. 529, 651 (2005); POOLEY, TRADE SECRETS, *supra* note 40, at 2-49 (“One significant difference between the UTSA and DTSA is the statute’s effect on other laws or claims . . . [T]he DTSA is expressly non-preemptive[.]”).

165. See UNIF. TRADE SECRETS ACT § 7(b).

166. 18 U.S.C. § 1833(b) creates whistleblower immunity from liability under federal and state law; see *supra* notes 143-151 and accompanying text.

167. *Id.* § 1838. This EEA provision was reaffirmed by the DTSA. See Defend Trade Secrets Act, Pub. L. No. 114-153 § 2(f), 130 Stat. 382 (2016) (“Nothing in the amendments made by this section shall be construed to modify the rule of construction under section 1838 of Title 18 . . . or to preempt any other provision of law.”). Section 1838 also assures that state UTSA enactments are not preempted by the DTSA. See S. REP. NO. 114-220, at 10 (2016); H.R. REP. NO. 114-529, at 14 (2016) (“Subsection 2(f) of the Act clarifies that nothing in this Act modifies the rule of construction in § 1838 of title 18, and, as a result State trade secret laws are not preempted or affected by this Act.”).

In a civil action brought under this subsection with respect to misappropriation of a trade secret, a court may

(A) grant an injunction . . . provided the order does not . . .

(II) . . . conflict with an applicable State law prohibiting restraints . . . on the practice of a lawful profession, trade, or business.¹⁶⁸

In other words, state regulation of restrictive employment covenants was called to the attention of Congress during the consideration of the DTSA. Congress was advised that this state law would be protected from change by Section 1838, the federal equivalent of the UTSA Contract Exception.

The DTSA follows the UTSA in making the existence of a trade secret a prerequisite to misappropriation and entitlement to a remedy.¹⁶⁹ The definitions of “trade secret” and “misappropriation” are as central to the federal private action as they are to the UTSA, and likewise should be immune from contractual variation.¹⁷⁰

The DTSA is as accommodating of restrictive employment covenants as the UTSA Contract Exception.¹⁷¹ The special DTSA bar upon injunctive relief that is inconsistent with state law prohibiting certain restrictive employment covenants goes further and defers to state preferences.¹⁷² In *Engility Corp. v. Daniels*,¹⁷³ a federal district judge interpreted this deference to mean that a DTSA injunction could not impose a restriction on competition that would be invalid in a restrictive covenant under the applicable state law.¹⁷⁴ Because the district judge considered that a limited restriction upon competition would pass muster under state law, he directed the parties to brief what scope, temporal, and geographic limitations should be imposed.¹⁷⁵ The

168. 18 U.S.C. § 1836(b)(3)(A)(i)(II). California Senator Feinstein proposed this provision and others to ensure that the DTSA would not override California’s limited acceptance of covenants not to compete. *See* CONG. REC. S1636-37 (daily ed. Apr. 4, 2016) (remarks of Sen. Feinstein).

169. *See* 18 U.S.C. § 1839(5) (misappropriation is wrongful “acquisition,” “disclosure,” or “use” of a “trade secret”); *see also* UNIF. TRADE SECRETS ACT § 1(2) (misappropriation is wrongful “acquisition,” “disclosure,” or “use” of a “trade secret”). The DTSA definition is identical “in all relevant respects” to the UTSA definition. S. REP. NO. 114-220, at 10 (2016); H.R. REP. NO. 114-529, at 14 (2016).

170. *See supra* notes 43-47 and accompanying text.

171. *See supra* notes 164-167 and accompanying text.

172. *See supra* note 168 and accompanying text.

173. *Engility Corp. v. Daniels*, No. 16-cv-2473-WJM-MEH, 2016 U.S. Dist. LEXIS 166737 (D. Colo. Dec. 2, 2016).

174. *Id.* at *31 (“[T]he Court cannot issue an injunction that effectively creates a statutorily disapproved noncompete restriction.”).

175. *Id.* at *39.

issued preliminary injunction enjoined the defendants from directly or indirectly soliciting, accepting, and performing any support work for specified types of contracts with the United States Northern Command for one year.¹⁷⁶ In dictum, the judge observed that it would be incongruous if an injunction under the applicable state enactment of UTSA was not also subject to the limitations imposed by the enacting state's restrictive covenant policy.¹⁷⁷

CONCLUSION

Both the UTSA, through the Contract Exception, and the DTSA, through its general presumption of nonpreemption and nondisplacement, accommodate enforceable restrictive employment covenants. Both statutes also permit tort actions for intentional interference with enforceable restrictive covenants. But the definitions of "trade secret" and "misappropriation" are so central to the statutes that contractual variations should be unenforceable.¹⁷⁸ Neither statute should apply to confidential information that does not qualify as a trade secret but can be protected by enforceable restrictive covenants.¹⁷⁹

As is the case under the UTSA, the terms of restrictive employment covenants to which a former employee has agreed can affect the relief available against the former employee under the DTSA.¹⁸⁰ If a former employer sues a former employee for damages under both a restrictive employment covenant and the DTSA, double recovery likewise must be avoided.¹⁸¹ Furthermore, the DTSA's express subordination to state restrictive covenant policy should lead to recognition of a similar subordination under the UTSA.

176. *Id.* at *43.

177. *Id.* at *32 ("[W]ith respect to [the Colorado Uniform Trade Secrets Act], it would be incongruous if the Court could create, by judicial fiat, a noncompete restriction that would not survive [the state enactment] if it appeared in a contract.").

178. *See supra* notes 43-47 and accompanying text.

179. *See supra* notes 80-84 and accompanying text.

180. *See supra* notes 85-88 and accompanying text.

181. *See supra* notes 89-97 and accompanying text.