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Trade Secrets

New Trade Secret Law Will Affect How Your Business Protects Sensitive Information

Legal Update

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Employers face ever-increasing threats to the security of their trade secrets. Now, thanks to Congress, employers have a new tool to combat such threats (along with new potential headaches).

Last week, the United States House of Representatives overwhelmingly passed the Defend Trade Secrets Act (DTSA). Passed earlier by the Senate, the DTSA now awaits President Obama's signature.

New Cause of Action for Trade Secret Theft in Federal Court

The DTSA creates a new civil cause of action in federal district court for suits based on the misappropriation of trade secrets. The law provides for injunctive relief and recovery of actual damages, as well as exemplary damages and attorneys' fees in the case of willful and malicious misappropriation.

Previously, state law largely governed allegations of trade secret theft, but the DTSA now creates an attractive route to federal court for parties litigating trade secret theft.

Implications for Non-Compete Lawsuits/State Law Claims

As many employers know, trade secret issues often arise in connection with noncompete disputes, when an employee departs and takes trade secret information with them to join a competitor or start a competing business. However, the DTSA will not operate as a mechanism to create non-compete agreements where none exist. Furthermore, the apparent thrust of the law is to leave existing state law and state law remedies unaffected. The law provides that a court may not order injunctive relief preventing "a person from entering into an employment relationship" and further provides that the law will not conflict with applicable state laws regarding "restraints on the practice of a lawful profession, trade, or business."

However, the law also allows courts to place “conditions” on employment, provided there is evidence of threatened misappropriation. What these “conditions” may be is presently unknown, and appropriate conditions under the law may vary from jurisdiction to jurisdiction, depending on the status of any applicable state law.

Immunity Provision: Consider Updating Confidentiality Agreements

The law also contains an immunity provision, protecting individuals who disclose trade secrets to government officials or attorneys for the purpose “of reporting or investigating a suspected violation of law.” And, the law requires that employers provide notice of this immunity “in any contract or agreement with an employee that governs the use of a trade secret or other confidential information.”

While, an employer can comply with this notice requirement by providing “a cross-reference to a policy document provided to the employee that sets forth the employer’s reporting policy for a suspected violation of law,” all employers should consider updating relevant policies and agreements to reflect the law’s directive.

Seizure Provision: Good When You Need it, Bad When You Don’t

Another notable feature of the law is its seizure provision. This provision allows courts to order the seizure of property where “necessary to prevent the propagation or dissemination of the trade secret that is the subject of the action.” While the law provides certain safeguards and cautions that seizure should be ordered “only in extraordinary circumstances,” courts may order seizure *without prior notice or a hearing* for the defendant. Also, the law contains no guidance as to what is meant by “propagation” or “dissemination.”

Whether this seizure provision becomes a boon or a bane to employers remains to be seen. While it could be an effective tool for swiftly preventing harm from trade secret theft, the provision also may encourage abusive tactics and could increase costs to employers defending themselves against meritless trade secret claims.

Takeaways

The President is expected to sign the DTSA shortly, so companies should be prepared to tangle with the newest cause of action on the block:

- In cases of trade secret theft, consider whether state or federal court is your best venue;
- Ensure that any new confidentiality agreements and existing policies comply with the DTSA’s immunity provision;
- Protect your trade secrets! The DTSA is only useful when disaster strikes. Your first goal should be to take affirmative action to protect your sensitive information so that you never need the law’s protections.

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For assistance in complying with the new law and for guidance on how you can better protect your company's trade secret or confidential information, contact Teresa Thompson, Norah Olson Blushtein, Sten Hoidal and David Waytz.