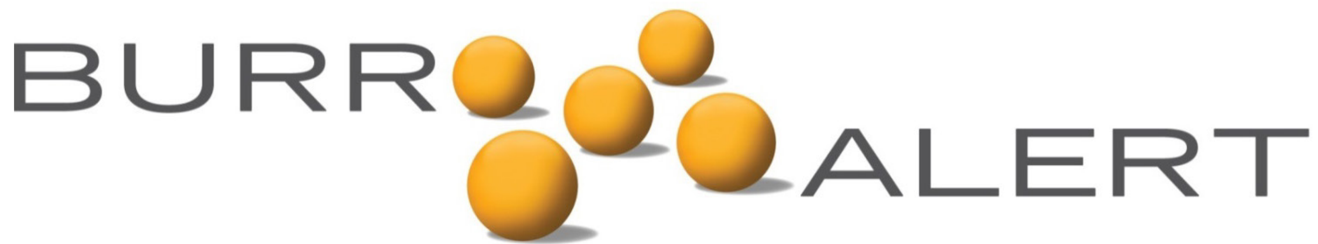

What the New Federal Trade Secrets Law Means for Employers

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The scope of the federal Defend Trade Secrets Act ("DTSA") enacted on May 11, 2016 extends well beyond employment issues. However, its impact on an employers' asset protection and enforcement program is quite significant.

The DTSA establishes a uniform, compressive body of law under which employers can secure the expedited return of their Trade Secrets misappropriated and/or misused by former or current employees, as well as damages related to such behavior. More specifically, the DTSA creates a new federal, cause of action for the protection of all employer trade secrets where historically, such was left to various state laws. The Uniform Trade Secrets Act ("UTSA") was proposed in 1979 as a recommended uniform state law to be adopted by the state legislators if they chose to do so. While the vast majority of the states eventually adopted the UTSA, they were free to and often did adopt modified versions of this law, leaving employers with more benign protections. The DTSA also expands and modernizes the UTSA body of state laws in many critical ways.

Most importantly, the DTSA creates a federal right for employers to seek relief from the misappropriation and/or misuse of trade secrets by current or former employees, even absent an enforceable contract containing nondisclosure, noncompete or other restrictive covenants. While it is more difficult to prove that the information at issue rises to the level of a "trade secret" under the DTSA as opposed to "confidential information" protected by a written contract, if it does satisfy the DTSA definition of "trade secrets," employers need not be concerned about the higher level of scrutiny applied to restrictive covenant/noncompete agreements by many state courts. Furthermore, the DTSA applies to all levels of employees (hourly and salaried) whereas many states enforce restrictive covenant agreements only as they apply to supervisory employees and higher.

The following is a summary of the key employment-related provisions of the DTSA:

1) Creating broader protections than many state statutes, the DTSA defines protected Trade Secrets in part as all forms and types of financial, business, scientific, technical, economic, or engineering information. It is also important to note that the DTSA expressly protects intangible as well as tangible trade secrets. Many state laws failed to include express protections for intangible trade secrets, leaving such either open to expensive and risky litigation or forcing the employer to implement a "rock solid" nondisclosure covenant within a contract signed by its employees in order to protect its information "stored in the brains" of its current or former employees.

2) The DTSA creates an expedited process by which an employer's trade secrets in the possession of a competitor can be seized and protected by the federal court pending a formal hearing regarding the alleged theft. Specifically, this procedure allows employers - under certain serious and extraordinary circumstances - to obtain a federal court order mandating the seizure of trade secrets by an appointed law enforcement officer. The statute allows for this order to be obtained even in the absence of notice to the party holding the trade secrets and against whom this order is obtained.

   a. Recognizing the potential for abuse of this "seizure" provision, the DTSA legislators incorporated important protections within the DTSA itself. A seizure order can be issued only in extraordinary circumstances where, for instance the damaged employer can show that the former employee is about to flee the country with the trade secret(s) and/or can show that the former employee is immediately going to disclose the trade secret to a third party. This is an extremely difficult burden for employers but is understandably designed to protect against unfair competition tactics and/or retaliation by employers against competitors and their former employees. The DTSA also establishes a viable claim by which former employees and their new employers can seek sanctions, damages and/or attorneys' fees related to abusive litigation.

3) The DTSA is also carefully drafted so as to not infringe on state law as such applies to "the inevitable disclosure doctrine." This is a doctrine whereby a former employer can use the misappropriation of confidential or trade secret information as a de facto noncompete in the absence of a signed noncompete covenant with its former employee. More specifically, under this doctrine, absent a noncompete contract, the court could issue an order preventing the former employee from becoming employed by or otherwise associated with a competitor where the position held by the new employee would "inevitably" result in the use of the former employers confidential information and/or trade secrets. Many states refuse to enforce the inevitable disclosure doctrine and the DTSA was carefully authored so as to not force the inevitable disclosure doctrine on those states.

4) Finally, employers should take note of the fact that the DTSA expressly protects certain employees and former employees who elect to blow the proverbial whistle under this legislation. Specifically, employees, contractors and consultants are immune from liability under the DTSA if those individuals disclose Trade Secret(s) to a government official or lawyer "solely" for the purpose of reporting or investigating a suspected violation of the law.

Here, it is very important to note that for purposes of employment or restrictive covenant agreements entered into after May 11, 2016, all employers must include language notifying the employee, consultant or contractor signing such agreement of the whistleblower protections afforded by the DTSA. Absent such notice, the employer could forfeit certain damages and attorneys' fees to which it would otherwise be entitled under the DTSA. This notice is required regardless of whether or not the whistleblower protections are at issue in the DTSA litigation.

The instances of theft of confidential and trade secret information by current and former employees is increasing at an alarming rate. Furthermore, the various electronic forms of such information make it far easier to steal, hide and transfer than ever before. The DTSA should never be relied on in

isolation but instead, should be relied on in conjunction with carefully tailored restrictive covenant agreements and other laws such as the federal Computer Fraud and Abuse Act. In combination with such, the 2016 DTSA can be an extremely valuable weapon in the employer's asset protection arsenal.

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If you would like more information, please contact:

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