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Protecting Your Trade Secrets in 2016

by Julie Levinson Werner and Tara P. D'Orsi

In a political climate with much discord and division, there are few matters on which both political parties agree, but the protection of trade secrets is one of them. On May 11, 2016, President Barack Obama signed into law the Defend Trade Secrets Act (DTSA),[1] which allows companies to file civil lawsuits regarding the theft of trade secrets under the federal Economic Espionage Act. Until now, that federal law allowed prosecutors to bring criminal actions only when circumstances were egregious enough to warrant such action, and employers' rights were primarily governed by state law.

While many states, including New Jersey, adopted various forms of the Uniform Trade Secrets Act, differences in the application of those laws still exist from state to state. Now, the act will allow these claims to be brought in federal court and deem their treatment a federal question. In an age where employees readily travel from one state to the next (and take their employers' trade secrets with them), the act is an additional tool to aid businesses in enforcing their rights.

One distinction between the act and state law involves a theory known as the 'inevitable disclosure.' When applying this theory, the courts in some states, but not others, have granted injunctions to prevent an employee from working for a new employer, arguing that when working in the new job the employee would inevitably be required to disclose trade secrets learned from the prior employer. The act expressly rejects this theory and prohibits a court from enjoining an employee from entering into an employment relationship. The DTSA also requires actual evidence of threatened misappropriation, rather than the possibility or inevitability of a disclosure based upon information the person knows. In addition to injunctive relief, double damages are available under the act if the trade secret is willfully and maliciously misappropriated. In an effort to deter frivolous claims or defenses, the act also permits a prevailing party to obtain reasonable attorney's fees.

To recover attorney's fees and double damages, the act requires that an employer provide advance notice in its contracts and agreements that employees will be immune from criminal and civil prosecution if they disclose trade secrets to government agencies or their attorneys solely for the purpose of reporting or investigating a suspected violation of the law or under seal in court proceedings. Under the act, the definition of 'employee' includes contractors and consultants. Accordingly, it is recommended that companies update their confidentiality and non-disclosure agreements to add this notice.

The notice must be in any contract or agreement containing nondisclosure provisions, such as nondisclosure agreements, employment and consulting agreements, and other restrictive covenant agreements that are entered into or updated after the enactment date of the DTSA. Without this required notice, a business may hinder its ability to recover attorney's fees or double damages. The notice requirement also can be satisfied by a cross-reference to a policy document that sets forth the applicable language, but if employers follow this course it is advised that employees sign to acknowledge receipt of the policy.

State court actions remain a viable option for claims brought under state law or when the inevitable disclosure doctrine is the best legal theory available for the facts at hand.

Still, given the time, expense, and unpredictability of litigation, filing a lawsuit should always be the last resort. Businesses should take proactive steps to protect their confidential and proprietary information by, for example:

- Restricting access to sensitive information (both in hard copy and electronically);
- Marking materials containing sensitive information as 'confidential';
- Requiring employees to sign confidentiality agreements;

- Prohibiting removal of materials containing confidential or proprietary information from the workplace; and
- Proactively monitoring and investigating possible theft of business information. ■

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Endnote

1. 18 U.S.C. § 1836.