

May 5, 2016

New Federal Trade Secret Law Aims To Make Enforcement More Consistent

President Obama is expected to sign the bill Congress recently passed to enact the Defend Trade Secrets Act of 2016 (“ACT”), which will provide civil remedies in the federal courts for the actual or threatened misappropriation of trade secrets. This new legislation may not dramatically change how trade secret disputes are currently litigated but should prompt a review of how your company handles confidential information, trade secrets and related litigation.

Currently, trade secret litigation is based entirely on state law, which can vary significantly between states, making an enforcement strategy complicated and unpredictable. The Act will not preempt state laws, but will provide a uniform civil process within federal courts and will offer some remedies unavailable under state laws. However, it still will be important to evaluate each individual case under applicable state and federal law, as some state laws may offer additional protections.

Trade secrets don’t have to be some complicated, technical formula—they can be almost any type of information by which a business derives economic value by virtue of it not being publicly known or reasonably ascertainable by others, as long as reasonable efforts have been taken to maintain its secrecy. Customer lists can fall into this category, as can recipes (think Coke).

The Act will authorize federal courts to award injunctive relief, damages, and also the seizure of property necessary to prevent the dissemination of a trade secret. However, the seizure remedy will be limited to “extraordinary circumstances,” and will require the person or company asking for the remedy to prove not only that they’re likely to win and that other equitable relief won’t do the trick, but also that the person or company against whom the order is sought would destroy, move, hide or otherwise keep the evidence from the court in the absence of a seizure. Additionally, if a property seizure is later proved to be wrongful, a person will be able to recover damages caused by the wrongful seizure.

Other injunctive relief to prevent any actual or threatened misappropriation of trade secrets will also be available under the Act. Importantly, an injunctive order cannot prevent a person from entering into an employment relationship, and any conditions placed on such employment must be based on evidence of threatened misappropriation and not merely on the information the person knows. In addition to traditional injunctive relief, the Act will authorize, in “extraordinary circumstances,” an order that conditions future use of a trade secret upon payment of a reasonable royalty for no longer than the period of time for which the use could have been prohibited. As a practical matter, trade secrets have no presumptive “expiration date”—if the recipe for the “secret sauce” had been zealously and successfully guarded for 50 years, with no sign of it ever being made available to the public, the period of time for which the use could have been prohibited could realistically be another 50 years. Therefore, if a competitor managed to misappropriate that trade secret recipe, this law would provide for a possible remedy of requiring that competitor to pay a royalty fee for any product in which that recipe was put to use—in addition to other remedies.

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If a trade secret is misappropriated in bad faith, attorney fees and exemplary damages of up to double the amount of other damages will be awarded. However, in order to receive exemplary damages or attorney fees, there is an additional requirement that an employer must have provided the employee notice that immunity is available in certain situations when providing trade secrets to the government or in a court filing. In light of this, as well as recent SEC, FINRA and EEOC actions, we recommend that notice language be added to all manuals and agreements with employees so that it is clear that whistleblowing activities are specifically carved out of any confidentiality obligations.

The law is expected to become effective for any misappropriation of trade secrets that occurs on or after the date of enactment. Keep in mind that your own house needs to be in order if you want to protect your trade secrets and be able to get relief if those secrets are misappropriated. This means that you (a) take a good look at the steps your company is taking to protect its trade secrets, i.e., perform an audit of your agreements, computer access, methods of storage and internal dissemination of information, etc., and (b) make it clear to people you hire that they need to comply with their legal obligations to their former employers and they should not bring trade secrets with them when they come to work for you.

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