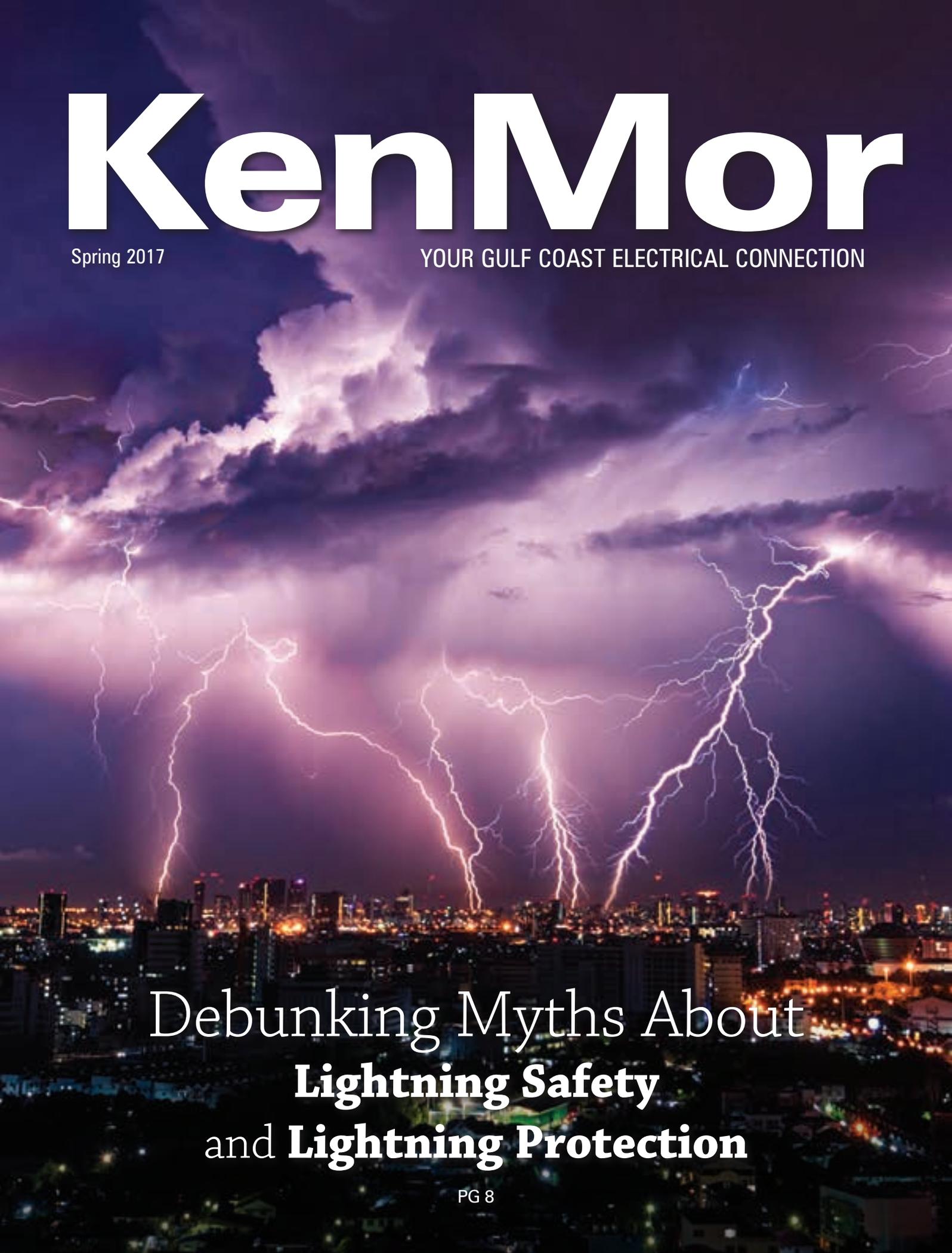


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# The Defend Trade Secrets Act of 2016

By Marcus Fettinger, Gray, Reed and McGraw, P.C.

Despite the political turmoil of 2016, Congress was able to get one thing passed — the Defend Trade Secrets Act. Business owners rejoice! This is the first time in the history of the United States that your trade secrets have been afforded protection under federal law. Of course, states have long recognized the need to protect these valuable assets, but the federal government has finally followed suit.

Forty-eight states have adopted the Uniform Trade Secrets Act, with the exception of New York and Massachusetts. In 2013, Texas adopted its version of the Uniform Trade Secrets Act. Prior to the enactment of the Texas Uniform Trade Secrets Act (TUTSA), business owners in Texas still had protection under the common law. Now business owners have even more power to protect their trade secrets. They are able to file a private lawsuit in federal court seeking to protect their valuable, confidential trade secrets. Before the enactment of the Defend Trade Secrets Act, business owners' only recourse was in state court. Importantly, though, the Defend Trade Secrets Act does not pre-empt (or overrule) TUTSA or other states' trade secret protection laws. In other words, business owners whose trade secrets have been misappropriated now have a choice: They can file in state court or federal court.

## When Does This Matter?

Imagine that you have a senior management employee working on bidding a \$1 million project. In the bidding process, he will need access to your pricing structure, designs, customer preference information, customer contact information and even your own financial information. Obviously, you take great care to ensure that this information stays within the confines of your business and is not available to the public. That is why we call them *trade secrets*. Well, it turns out that this senior management employee has other plans.

Your direct competitor is also bidding the same project. The competitor offers your senior manager a \$50,000-per-year raise if he will bring over your pricing structure, designs, customer preference information, customer contact information and financial information so that the competitor can underbid you on the project. While it is clear that this is wrongful, you could not file a lawsuit to recover damages and your trade secrets in federal court until May 2016.

## What Are the Elements of a Claim?

Under the Defend Trade Secrets Act, "misappropriation" is defined as follows:

- (A) *acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or*
- (B) *disclosure or use of a trade secret of another without express or implied consent by a person who:*
  - (i) *used improper means to acquire knowledge of the trade secret;*
  - (ii) *at the time of disclosure or use, knew or had reason to know that the knowledge of the trade secret was:*
    - (I) *derived from or through a person who had used improper means to acquire the trade secret;*
    - (II) *acquired under circumstances giving rise to a duty to maintain the secrecy of the trade secret or limit the use of the trade secret; or*
    - (III) *derived from or through a person who owed a duty to the person seeking relief to maintain the secrecy of the trade secret or limit the use of the trade secret; or*

- (I) *derived from or through a person who had used improper means to acquire the trade secret;*
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  - (III) *derived from or through a person who owed a duty to the person seeking relief to maintain the secrecy of the trade secret or limit the use of the trade secret; or*
- (iii) *before a material change of the position of the person, knew or had reason to know that:*
- (I) *the trade secret was a trade secret; and*
  - (II) *knowledge of the trade secret had been acquired by accident or mistake*

## What Are My Remedies?

Consider the situation above where you learn that your senior manager is leaving, has taken your trade secrets and intends to use them for the benefit of your direct competitor. The Defend Trade Secrets Act allows you to seek an injunction from a federal court requiring the senior manager to return and delete any copies of your trade secrets. Specifically, the Defend Trade Secrets Act states that a federal court may "issue an order providing for the seizure of property necessary to prevent the propagation or dissemination of the trade secret." In addition to this equitable relief, if you actually lost that \$1 million contract, the court can award you damages for your lost profits. Here is the kicker! If you can show that the trade secret was "willfully and maliciously misappropriated," you can get an award of exemplary damages, which would double the amount of damages awarded. You can also recover your attorney's fees in the case of willful or malicious misappropriation.

## What Can I Do to Protect My Business?

Put simply, protect your trade secrets. A trade secret is not a secret if you do not take the steps necessary to safeguard your information. Put processes and procedures in place to minimize the availability of your trade secrets, and only allow access to your trade secrets when necessary for a legitimate business purpose. After all, let's not have to count on the Defend Trade Secrets Act to protect our trade secrets' value.

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