

# Trade Secrets Update

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**TOP  
SECRET**

# Defend Trade Secrets Act

- Amends the Economic Espionage Act by providing a civil remedy for trade secret misappropriation
- Effective May 11, 2016
- Largely parallels the Uniform Trade Secrets Act (adopted in 48 states)
- Does not preempt state law



# What's new?

- Federal question jurisdiction
  - Particularly meaningful in circuits with restrictive interpretations of the Computer Fraud & Abuse Act
- *Ex parte* seizure orders carried out by law enforcement in extraordinary situations
- Potential extraterritorial reach
- May eliminate or simplify choice of law issues (or just add another statute into mix)
- Notice requirement for employment agreements containing confidentiality provisions

# Injunction Limitations

- Injunctions cannot “prevent a person from entering into an employment relationship.”
- Restrictions on a person’s employment must be based on evidence of threatened misappropriation and not “merely on information the person knows.”
- Injunctions cannot “conflict with an applicable State law prohibiting restraints on the practice of a lawful profession, trade, or business.”

# What do employers need to do now?

- Must comply with a specific notice requirement to recover attorneys' fees and punitive damages
- Notice must be given “in any contract or agreement with an employee that governs the use of a trade secret or other confidential information.”
  - Only required in contracts entered into or updated after DTSA
  - Includes agreements with consultants and independent contractors

# What agreements must include the notice?



- All agreements that govern the use of trade secret information
  - Offer letters or employment applications with contractual language
  - Employment agreements
  - Restrictive covenant agreements
  - Nondisclosure agreements
  - Stock or incentive plans
  - BYOD and computer use agreements
  - Separation agreements
- What if the employer has one slip-up?

# Texas Uniform Trade Secret Act

- Requires courts to preserve the secrecy of alleged trade secrets “by reasonable means.”
- Identifies “attorneys’ eyes only” arrangements, *in camera* hearings, sealing records, and ordering any person involved in the litigation not to disclose an alleged trade secret without prior court approval as methods to preserve secrecy of alleged trade secrets during litigation
- Supersedes inconsistent provisions of the Texas Rules of Civil Procedure

## *In re M-I LLC*

--- S.W.3d ---, 2016 WL 2981342 (Tex. May 20, 2016)

- M-I alleged NOV and former employee misappropriated trade secrets
- M-I requested to exclude NOV's corporate representative from the courtroom during testimony about the trade secrets
- Trial judge:
  - A "total violation" of NOV's due process rights to exclude the corporate representative. "You sued them. They stay, period."
  - But gave instruction to NOV's corporate representative not to disclose or use any trade secret information he heard

# The Parties' Positions

- M-I: The judge “put a Texas business in an impossible position: Reveal your trade secrets to your competitor in open court, or forego the injunction required to protect those very secrets.”
- NOV: “From a basic due process standpoint, the position [M-I] is taking is they get to try this case to a Star Chamber. Just take our word for it, they’re trade secrets and you are liable for it.”



# The Texas Supreme Court Speaks

- Neither plaintiff's interest in protecting the secrecy of the information, nor defendant's due process rights, are absolute
- Trial courts must balance parties' competing interests
- Faulted trial judge for summarily rejecting M-I's request without balancing each side's competing interests
- Did not decide whether NOV's corporate representative should have been excluded from the courtroom

# Balancing Factors

- The value of the alleged trade secrets
- The degree of competitive harm from the disclosure of the alleged trade secrets
- The opportunity for the corporate representative to make use of the information
- The degree to which the exclusion of the corporate representative would impair the defense
- Whether the proceeding is preliminary or involves a final adjudication on the merits



# Balancing Factors

- Does it matter if there is a former employee defendant in the mix?



# What might the process look like?

- Plaintiff presents affidavits for *in camera* review to establish:
  - The trade secret status of the information
  - The various ways that the defendant could use the information to gain an unfair competitive advantage
- Defendant's attorneys have access to *in camera* affidavit
- Defendant's counsel asserts challenges based on the Supreme Court's factors

# The Bigger Picture

- Balancing test factors go to the heart of the merits:
  - Is the information commercially valuable?
  - Is the information unknown to competitors?
  - Is the defendant in a position to use the information to the detriment of the plaintiff?
- Will the case be won or lost before the parties even put on their temporary injunction evidence?
- Has the Texas Supreme Court transferred the battleground from the temporary injunction hearing to the court's *in camera* review?

# The Bigger Picture

- Which side does the decision favor? Will plaintiffs or defendants try to pick the battle before the temporary injunction hearing?
- Defendants may have to defend trade secret status without assistance from defendants' employees
- But defendants will get two bites at the apple – once at the balancing stage, once at the injunction hearing

# QUESTIONS?

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