



DELAWARE

EMPLOYMENT LAW LETTER

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Vol. 21, No. 5
May 2016

CONFIDENTIAL INFORMATION

Trading up? Federal trade secret bill would affect Delaware employers

by Lauren E.M. Russell

It appears the federal government is on the verge of passing new trade secret legislation, the Defend Trade Secrets Act (DTSA). The legislation contains several interesting differences from the Uniform Trade Secrets Act (UTSA). This month, we discuss what employers stand to gain and lose from the DTSA.

What is a trade secret?

A trade secret is just what it sounds like: information a business has gathered that is not generally available to the public. A trade secret could be something as basic as a list of customers' contact information and order histories or something as complex as methods for producing a specific product. Trade secrets are different from patented inventions, which are disclosed to the public through the process of filing a patent.

just like employees cannot walk out the front door with a copier when they quit, they cannot walk out with trade secrets. Trade secret litigation often arises when an employee quits his job to go to work for a competitor and decides to take confidential customer information with him in an effort to ingratiate himself to his new employer.

What will change with the DTSA?

All 50 states have laws that protect a business's trade secrets. The laws generally define what qualifies as a trade secret, prohibit the theft of trade secrets, and impose penalties for violations.

The DTSA diverges from traditional trade secret laws in several ways. First, it creates a federal claim, meaning employers will be able to file trade secret lawsuits in federal court instead of state court. The federal court system is often better funded than state courts and may have a better grasp of complex commercial issues.

In addition, the DTSA provides civil and criminal immunity to whistleblowers. The UTSA does not have a whistleblower protection provision. Under the DTSA's whistleblower provisions, an employee is protected if he turns over trade secrets to the government so it can investigate potentially illegal activity.

Further, the DTSA states that in any contract related to trade secrets or confidential information, employees must be notified of their right to turn over confidential information to the government if they suspect illegal conduct. That provision is a game-changer. Most employment agreements address confidential information, and many address intellectual property and trade secrets. The best practice will be to include a disclaimer explaining employees' right to disclose confidential information to the federal government. The provision is worrisome because potentially illegal conduct is all in the eye of the beholder. We all have had employees who thought they were experts in the law but really weren't. Now employees can turn over your confidential information to the government

If an employer files suit under the DTSA and attempts to enforce a contract that does not include the disclaimer language, it will be barred from recovering punitive damages and attorneys' fees. That means you can catch an employee red-handed, prove your case, and be prevented from fully recovering because of a technicality.

However, the whistleblower requirements are balanced by a new seizure provision. In extreme cases, an employer can ask a federal court to send law enforcement officials to seize trade secret information from a former employee without a hearing. The remedy is available only when seizure is "necessary to prevent the propagation or dissemination of the trade secret." So if a former employee threatens to e-mail your customer list to your competitors, a new remedy is available.

Why should Delaware employers care?

In Delaware, most lawsuits regarding unfair competition, including the theft of trade secrets, are filed in the Court of Chancery. The court is nationally recognized for its expertise in dealing with business law matters. Acknowledging that business matters frequently require rapid intervention, the court has developed extensive procedures for what is known as expedited litigation. In as little as two days, a business can obtain an order from the court prohibiting a former employee from engaging in misconduct. If a marketing manager walks out the front door with a customer list (a trade secret) and starts making phone calls on behalf of a competitor, every day can mean thousands or millions of dollars in lost revenue. So quick action counts.

The Court of Chancery specializes in trade secret litigation. Until now, federal courts very rarely saw trade secret litigation. Having nationally recognized experts is a true benefit in Delaware.

Those considerations are important because if an employer files a claim under the DTSA, an employee could have the case moved from the Court of Chancery to the U.S. District Court for the

employers will have to think carefully about the risks and rewards of proceeding under state or federal law.

Bottom line

The DTSA may be a real game-changer. If nothing else, it will change the way employment contracts are drafted. But there are special considerations for Delaware employers. We have a fantastic court that specializes in business litigation and has extensive experience with trade secret lawsuits. With that in mind, employers must carefully consider whether it is worth seeking remedies available under federal law because it may mean giving up access to the Court of Chancery.

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