

Take Notice (And Give Notice!): The “Defend Trade Secrets Act of 2016” (DTSA) Requires Immediate Employer Action

On May 11, 2016, President Obama signed the Defend Trade Secrets Act of 2016, creating the first federal civil cause of action for misappropriation of trade secrets.

One provision of the DTSA requires immediate action by employers. The DTSA includes a whistleblower provision that provides immunity for disclosure of trade secrets to government officials. Beginning May 12, 2016, employers must give notice of this immunity to employees, consultants and contractors in any future agreement that “governs the use of trade secret or other confidential information.” Employers should also consider revising employee handbooks or any policy that governs the use of a trade secret or confidential information to include a notice of this whistleblower immunity. As a penalty for failing to comply with the notice provisions, employers cannot recover exemplary damages or attorneys’ fees that may otherwise be available under the DTSA.

Discussion

Until the passage of the DTSA, trade secrets were the sole form of intellectual property without a federal cause of action for infringement.¹ Although trade secret theft has been a federal crime since 1996, see Economic Espionage Act of 1996, 18 U.S.C. § 1833(b)(1), the DTSA creates the first federal civil cause of action for trade secret misappropriation. The DTSA does not preempt state laws, leaving both federal and state remedies available to wronged employers.

Defining Trade Secrets

What is a trade secret? The DTSA uses the same definition for a “trade secret” as the Economic Espionage Act, which defines the term as follows:

[T]he term “trade secret” means all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if —

(A) the owner thereof has taken reasonable measures to keep such information secret; and

(B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, the public.

If an employee misappropriates a trade secret (essentially meaning that he or she illicitly acquires or discloses a trade secret), the DTSA allows courts to grant an injunction to prevent any actual or threatened misappropriation and to award damages for (1) actual loss caused by the misappropriation and (2) for any unjust enrichment caused by the misappropriation. Employers who provide the required whistleblower notice (described below) may also collect attorneys’ fees and exemplary damages of up to two times compensatory damages in the event of willful and malicious misappropriation.

¹ There is a civil cause of action under federal law for patent infringement, see 35 U.S.C. §§ 271-73; for copyright infringement, see 17 U.S.C. §§ 501-05; and for trademark infringement, see 15 U.S.C. §§ 1114-17.

Whistleblower Protection

Effective May 12, 2016, all employers are required to provide a notice-of-immunity to employees and contractors "in any contract or agreement with an employee [or independent contractor] that governs the use of a trade secret or other confidential information." The notice must specify that, if the employee or contractor discloses the trade secret under the following circumstances, the employee or contractor will not be subject to civil and criminal liability under any state or federal trade secret law:

- (1) in confidence to a Federal, State, or local government official either directly or indirectly, or to an attorney, solely for the purpose of reporting or investigating a suspected violation of law; or
- (2) in any document filed under seal in a lawsuit or other proceeding.

In addition, in a lawsuit alleging retaliation by an employer against an employee for reporting a suspected violation of law, the employee may disclose the trade secret to his or her attorney and use that information in the court proceeding, as long as any document containing the trade secret is filed under seal and the employee does not disclose the trade secret absent a court order.

The DTSA applies to "any act" that "occurs on or after the date of enactment." Therefore the notice provision applies to any contract entered into or any agreement modified after May 12, 2016. The DTSA expressly defines individuals performing work as consultants or contractors as "employees" for purposes of the whistleblower provision. Thus, the notice requirement applies to employees and "any individual performing work as a contractor or consultant for an employer."

Failure to comply with the notice requirement will limit an employer's recovery if the employer later sues the employee (or independent contractor) for trade secret misappropriation under the DTSA. If the employer has not given the required notice, the employer will not be able to collect exemplary damages or attorneys' fees. No other specific penalties are provided. However, the failure to give the notice could potentially be used as evidence that the business has no trade secrets to protect, and there is always a risk that an employee or state or federal agency could seek to enforce the notice provision through a lawsuit or other agency enforcement action.

Ex Parte Seizures

In addition to creating a new federal cause of action, the DTSA implements *ex parte* seizure provisions under exceptional circumstances. An *ex parte* seizure is an order by a court, without prior notice to the adverse party, instructing the government to seize materials that may constitute or contain protected trade secrets. To prevent abuse of the procedure, the DTSA sets out a high bar that a plaintiff must meet in an affidavit or verified complaint in order to obtain an *ex parte* order. In short, the *ex parte* seizure remedy will apply only in extraordinary circumstances where an injunction is not sufficient to prevent injury.

Rejecting the Inevitable Disclosure Doctrine

The DTSA rejects the "inevitable disclosure doctrine," which allows employers in some states to seek to enjoin former employees from working for competitors based on the rationale that the employee would inevitably disclose his knowledge of trade secrets to his or her new employer. The DTSA allows an employer to obtain an injunction to prevent an employee from taking a job based only on "evidence of threatened misappropriation" but "not merely on the information the person knows." Individual states' laws governing non-compete agreements remain unchanged by the DTSA.

Steps for Employers to Take Now

- Employers should revise any standard or model employment or independent contractor agreements that include confidentiality and/or trade secret provisions to include the notice of whistleblower immunity.
- Employers should ensure that the whistleblower immunity notice is included in such agreements that are entered into on or after May 12, 2016.
- Employers should provide the notice of the whistleblower immunity in the confidentiality section of their Employee Handbooks and in any other confidentiality policies.

This alert is for general informational purposes only and should not be construed as specific legal advice. If you would like more information about this alert, please contact one of the following attorneys or call your regular Patterson contact.

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