

CLINE WILLIAMS

WRIGHT JOHNSON & OLDFATHER

NEW FEDERAL TRADE SECRETS ACT EXPANDS EMPLOYERS' RIGHTS AND OBLIGATIONS

The federal Defend Trade Secrets Act of 2016 (the “DTSA”) was recently signed into law, creating the first federal civil cause of action for the misappropriation of trade secrets. By providing civil jurisdiction in federal courts for trade secret misappropriation, the DTSA provides another tool to prevent the disclosure of valuable trade secrets and remedies in the event of a trade secret theft or unlawful disclosure. However, the DTSA also imposes new obligations on employers in order to pursue certain remedies, including exemplary damages and attorneys’ fees.

Highlights and Overview of the DTSA

To bring a claim under the DTSA, the trade secret at issue must be related to a product or service used in, or intended for use in, interstate or foreign commerce. The DTSA does not preempt applicable state laws, but instead creates an additional remedy for employers under federal law and allows a case to proceed in federal court where it otherwise might not. The DTSA is modeled after the Uniform Trade Secrets Act, which most states have adopted in one form or another. While most of the DTSA’s provisions mirror the Uniform Trade Secrets Act, including the definition of “misappropriation,” the DTSA contains significant variances from most state laws.

One such variance under the DTSA is the “civil seizure” provision that allows courts, upon *ex parte* application and only in extraordinary circumstances, to order seizure of property necessary to prevent the dissemination of a trade secret.

The DTSA also rejects the “inevitable disclosure” doctrine, which has been recognized in some jurisdictions to enjoin a former employee from working for a competitor where the employee would inevitably disclose his/her former employer’s trade secrets to the new employer. Instead, the DTSA permits the court to enjoin the former employee based only on “evidence of threatened misappropriation,” but *not* on the basis of information the former employee simply knows.

Available Remedies Under the DTSA

Under the DTSA, the owner has three years to bring a misappropriation claim. Remedies available under the DTSA include:

1. injunctive relief;
2. damages for actual loss and any unjust enrichment;
3. exemplary damages, if the misappropriation was willful and malicious and the DTSA notice provision was satisfied; and
4. attorneys’ fees to the prevailing party, if a motion to terminate an injunction is made or opposed in bad faith, or the trade secret was willfully

and maliciously misappropriated and the DTSA notice provision was satisfied.

Whistleblower Protection and Employers' Notice Requirements

Importantly, the DTSA *immunizes* individuals for certain disclosures of a trade secret:

- The disclosure of a trade secret made in confidence to a Federal, State, or local government official, or to an attorney, solely for the purpose of reporting or investigating a suspected violation of law;
- The disclosure of a trade secret made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal; or
- Where an individual files a lawsuit for retaliation by an employer for reporting a suspected legal violation and discloses the trade secret to his/her attorney, or uses the trade secret information in the court proceeding, so long as the individual files any document containing the trade secret under seal and does not otherwise disclose the trade secret, except pursuant to court order.

To ensure employees are aware of the immunity provided by the DTSA, the DTSA incentivizes employers to provide written notice of the immunity provisions to their employees. Employers who fail to comply with the notice requirement moving forward will not be able to recover exemplary damages or attorneys' fees under the DTSA.

Immediate Action Required by Employers

In light of the above, employers should update any template agreements (including independent contractor agreements) containing provisions governing the protection of confidential information and trade secrets to include the notice provisions required by the DTSA. Although existing, executed agreements need not be amended solely to address the DTSA, moving forward, all such newly executed agreements should include the required notice language. Failure to do so will foreclose recovery of rather powerful remedies—attorneys' fees and exemplary damages.

Similarly, employers should update their employee handbooks or other policies/procedure manuals to comply with the DTSA's notice requirement.

For additional information on the DTSA and steps to protect your company's trade secrets, please contact a member of Cline Williams' Labor and Employment Section:

[David R. Buntain](#)
[Jill G. Jensen](#)

[John C. Hewitt](#)
[Jason R. Yungtum](#)
[Lily A. Carr](#)

[Tara A. Stingley](#)
[Henry L. Wiedrich](#)
[Kara J. Ronnau](#)

[Susan K. Sapp](#)
[Jody N. Duvall](#)