

THE
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Steps You Need to Take Now Under the New Defend Trade Secrets Act

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On May 11, 2016, President Obama signed the Defend Trade Secrets Act (“DTSA”) into Law. The DTSA creates a new federal cause of action for trade secret misappropriation effective immediately. DTSA offers a parallel body of law that exists alongside the prior state law regime, the Uniform Trade Secrets Acts (UTSA), which was adopted in all States but Massachusetts and New York. DTSA is intended to provide predictability to businesses through a uniform body of law and will provide additional remedies for a company seeking to protect its trade secrets.

NEW REMEDIES UNDER DEFEND TRADE SECRETS ACT

Under the DTSA, the trade secret owner can file a civil action in Federal District Court and the Court has a number of remedies available:

- Injunctive relief to prevent actual or threatened misappropriation;
- Ex parte seizure of property to prevent the disclosure or dissemination of the trade secret in limited circumstances upon a showing that injunctive relief is not sufficient to prevent immediate and irreparable injury.
- Actual damages;
- Royalties where an injunction is not adequate;
- Exemplary damages (double the amount of damages) and attorneys’ fees for willful and malicious misappropriation;
- Conditions on a person’s employment based upon evidence of threatened misappropriation if those restrictions do not violate state law prohibiting restraints on trade or businesses; and

WHISTLEBLOWER PROTECTIONS

The DTSA also provides protections for whistleblowers who disclose trade secrets under certain limited circumstances, including:

- Disclosure to an attorney or to a federal, state, or local government official, for the sole purpose of reporting or investigating a suspected violation of law, in confidence;
- Disclosure made in a complaint or other document filed in a lawsuit under seal; or
- Disclosure to his or her attorney in a lawsuit of retaliation by the employer for suspecting a violation of law; and an employee can use the trade secret in such retaliation suit, so long as the employee files the document containing such trade secret under seal and does not otherwise disclose such trade secret without court order.

WHAT DO COMPANIES NEED TO DO NOW?

Amend your Employment and Consulting Agreements that include Trade Secret Provisions.

For all contracts or agreements entered into after **May 11, 2016**, DTSA requires that employers provide notice



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of the immunity and retaliation provisions (“Notice”) to employees, consultants, and independent contractors. For all employment contracts entered before that, it’s not necessary to insert the below changes or provisions. Because “employee” is interpreted broadly under the DTSA, “employment agreements” mentioned above does not only contain mere employment agreements, but also independent contractor agreements, consulting agreements, separation and release of claims agreements, severance agreements, and other similar agreements included in the employee handbook.

What should be added in those Agreements?

The immunity provided by the DTSA should be made clear and known by the employers to the employees.

These immunities provisions should be inserted into the employment contracts, in language such as:

- “You are hereby notified that you may be entitled to immunity and protection from liabilities under the Defend Trade Secrets Act of 2016 for disclosing a trade secret under certain limited circumstances set forth below. . .”
- “Notwithstanding the foregoing nondisclosure obligations, pursuant to 18 USC Section 1833(b), [Employee/Contractor] shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that is made: (1) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney, and solely for the purpose of reporting or investigating a suspected violation of law; or (2) in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.”

For employees’ contractual language, employers can consider inserting similar Notice language into their employee handbook or policies, and cross-reference the language on the policies. However for independent contractors or consultants whose contract involves trade secrets, the contract should provide the full language of Notice provision.

WHAT ARE THE LEGAL CONSEQUENCES IF I FAILED TO DO SO?

If an employer fails to provide the required Notice, the employer cannot recover exemplary damages or attorneys’ fees under the DTSA from an employee to whom the required Notice was not provided. However, the loss is only at Federal level, the employer could obtain such exemplary damages and attorneys’ fees under applicable state law, if available, although not all states allow recovery of such exemplary damages.

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