

Defend Trade Secrets Act of 2016 Client Advisory

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This week, President Obama signed the Defend Trade Secrets Act of 2016 (DTSA) into law. Widely described as the most significant expansion of federal intellectual property law in years, the DTSA creates a new federal cause of action for trade secret misappropriation that supplements existing state laws and statutes.

The DTSA provides trade secret owners with the ability to choose between federal and state court forums for trade secret misappropriation and it also provides the ability to obtain an *ex parte* seizure order when more traditional injunctive relief may not be sufficient. However, employers and in-house counsel should be aware of other notable amendments of the DTSA that require immediate action.

First, the DTSA provides limited whistleblower immunity from trade secret misappropriation to individuals who disclose trade secrets “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.”¹ Individuals would also have immunity if the disclosure was “made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.”²

While the statute extends the immunity to protect against both federal and state law for both civil and criminal allegations,³ employers should be aware that this provision does not expressly allow for the immunity in arbitration proceedings that are common in employee disputes. It is unclear whether courts will construe the language of this provision to include arbitration proceedings in the future.

Second, all employers are required by the DTSA to provide a notice of the new whistleblower immunity “in any contract or agreement with an employee that governs the use of a trade secret or other confidential information” for contracts “entered into or updated after the date of the enactment of the statute.”⁴ The statute allows for compliance with this notice through cross-referencing a policy document instead of having to include the entire immunity provision in each contract.⁵ Employers who fail to provide this notice may not be awarded exemplary damages or attorney fees for actions brought under the DTSA against an employee that did not receive notice.

This means trade secret owners should immediately update their standard agreements to include the required notice language to take advantage of the full range of remedies under the DTSA. Cautious trade secret owners should keep in mind that “employee” is broadly defined under the DTSA as “any individual performing work as a contractor or consultant for an employer.”⁶ Therefore, trade secret owners should consider updating agreements with not only employees but also independent contractors and vendors who may have access to confidential information and trade secrets.

¹18 U.S.C. § 1833(b)(1)(A)(i).

²18 U.S.C. § 1833(b)(1)(A)(ii).

³18 U.S.C. § 1833(b)(1).

⁴18 U.S.C. § 1833(b)(3)(A), (D).

⁵18 U.S.C. § 1833(b)(3)(B).

⁶18 U.S.C. § 1833(b)(4).

In light of the changes under the DTSA, we recommend the following steps to help trade secret owners take full advantage of the new law:

1. Update any existing company whistleblower policy documents to include the required notice under the DTSA.
2. Update employment agreements for new employees to provide the required notice under the DTSA in the agreement or by reference to the company's whistleblower policy.
3. Update any standard contracts or non-disclosure agreements used by the company to protect its trade secret information to ensure they contain the required notice.
4. Require that any suppliers, vendors, or other contractors whose employees have access to your trade secret information also provide appropriate notice to their employees.
5. Ensure that your business is in full compliance with the DTSA notice requirement by having counsel review standard contracts and company policy documents to make sure they contain the required notice.

Businesses must always remain vigilant with its secrecy measures to protect and maintain its trade secrets. But with the DTSA creating a new trade secret frontier, make sure your company is prepared to handle the new challenges and opportunities.

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