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If Your Business Wants to Reap the Full Benefits of the New Federal Trade Secret Misappropriation Law, You Need to Update Your Confidentiality Agreements. ASAP.

Employers looking to further protect their ever-valuable trade secrets are welcoming the arrival of the Defend Trade Secrets Act ("DTSA"), a new federal law permitting trade secret owners to file misappropriation claims in federal court, but they must implement some important changes before enjoying the full scope of these statutory protections.

The DTSA, which applies to publicly and privately held companies alike, received near-universal bipartisan support in Congress and took immediate effect upon being signed by President Obama on May 11, 2016. The law extends the Economic Espionage Act ("EEA"), which criminalizes trade secret thefts, by creating a civil cause of action for trade secret misappropriation that can be filed in federal court. While the DTSA will co-exist with, and not preempt, state trade secret laws — nearly all of which derive from the Uniform Trade Secrets Act — it should lead to a more uniform body of case law and, hopefully, faster resolutions of these disputes. In addition, the statute opens the federal courthouse doors to trade secret misappropriation cases, which historically have been the exclusive domain of the state courts. The DTSA may prove to be a more powerful tool than state laws, as its definition of "trade secrets" arguably includes a wider range of "financial, business, scientific, technical, economic or

engineering information" that: (i) is secret; (ii) has been subjected to reasonable protective measures; and (iii) derives independent economic value from not being generally known or available to others. The DTSA should also be popular for its ex parte seizure provisions, which permit victims of trade secret theft to petition the court, without providing advance notice to the defendant, for an order to seize the materials at issue (*e.g.*, computers, hard drives, storage media, or electronically stored information) pending resolution of the case.

Although not the Act's main focus, the most pressing aspect of the DTSA for employers is the requirement that agreements with employees, contractors, and consultants addressing confidential information be amended to include certain disclosures. Specifically, the DTSA provides civil and criminal immunity for employees, contractors, and consultants who:

1. Disclose trade secrets in confidence to the government or their lawyers for the purpose of reporting or investigating a suspected violation of law;
2. Disclose the trade secrets to their personal attorneys in connection with a lawsuit alleging retaliation for reporting a suspected violation of law; or

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3. Disclose or use the trade secret in any complaint or other document filed in a lawsuit so long as they file the trade secret information under seal.

In accordance with these mandates, employers “shall” provide notice of these immunities “in any contract or agreement with an employee that governs the use of a trade secret or other confidential information.” With the DTSA defining “employee” to include employees, contractors and consultants, everyday business documents providing for trade secret protection, such as employment agreements, non-disclosure agreements, restrictive covenant agreements, intellectual property agreements, and separation agreements, among others, should be amended to include these disclosures. Alternatively, employers can cross-reference a “policy document” in these agreements that “sets forth the employer’s reporting policy for a suspected

violation of law,” though employers choosing this option must ensure the “policy document” is: (i) provided to the employee, contractor, or consultant; and (ii) details the statutory immunities set forth above.

The notice provision only applies to new agreements executed on or after May 11, 2016, so there is no need to rewrite prior agreements. Employers who fail to comply with the notice provision can still file suit under the DTSA, but cannot recover exemplary damages (up to two times actual damages) and attorneys’ fees in the process. Thus, in order to enjoy the full extent of the statutory protections, employers should quickly identify the agreements it uses to govern trade secrets and confidential information, and insert the immunity notice as soon as possible. It is a small price to pay for a potentially significant damages award.

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