



The New Federal Trade Secrets Law: Top Takeaways for Employers

By The Employee Mobility and Trade Secrets Practice

As our [Client Alert](#) reported last week, President Obama signed the Defend Trade Secrets Act (“DTSA”) into law on May 11, 2016. This new law creates a federal cause of action for the misappropriation of trade secrets.

Below are four things employers need to know now:

1. Certain Agreements and Policies Should be Reviewed for Compliance Right Away

The DTSA grants civil and criminal immunity to employees who disclose trade secrets under certain circumstances. It states that an individual shall not be held criminally or civilly liable under any federal or state trade secret law for two types of disclosures:

- Disclosures made in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney, solely for the propose of reporting or investigating a suspected violation of law; and
- Disclosures, filed under seal, that are made in a complaint or other document filed in a lawsuit or other proceeding.

The Act also states that companies “shall” provide notice of the immunity—in one of two ways—to employees, contractors, and individual consultants.

- First, the employer may provide notice in any contract or agreement with an employee that governs the use of a trade secret or other confidential information.
- Alternatively, the employer can satisfy the notice requirement by providing a cross-reference to a policy document given to the employee that sets forth the employer’s reporting policy for a suspected violation of law.

If an employer does not comply with the notice requirement, it may not be awarded exemplary damages or attorneys’ fees in an action against an employee to whom notice was not provided. This provision applies only to contracts or agreements entered or updated after the enactment of the DTSA.



Employers hiring new employees or asking employees to sign any agreement that governs the use of confidential information should immediately review their policies and agreements for conformance with the DTSA. This includes a wide range of employment documents, such as nondisclosure agreements, settlement agreements, offer letters, and employment agreements.

2. Be Aware of the Act's Whistleblower Privilege

Because the DTSA allows the limited use of trade secrets in a retaliation lawsuit, employee-litigants can be expected to assert this as a defense to misappropriation. However, it is important to understand that the scope of this "whistleblower privilege" is very narrow: (i) the employee must have reported a suspected violation of law implicating the trade secret; (ii) the use of the trade secret must be limited to disclosure to an attorney and use in the anti-retaliation lawsuit; (iii) the trade secret must be filed under seal; and (iv) the employee cannot otherwise disclose the trade secret, except pursuant to court order. If any of these requirements are not met, the permissible use dissolves.

Employers should review their policies for reporting suspected violations of law in light of the DTSA and consider the ramifications of trade secret protections in all situations involving an alleged whistleblower.

3. Injunctions Prohibiting Employment Are Barred; Conditions on Employment May Not Be

Unlike certain states that have embraced the "inevitable disclosure" doctrine, the DTSA expressly bars orders that "prevent a person from entering into an employment relationship." This means that even if an employee misappropriates trade secrets and discloses them to a competing business, a DTSA injunction cannot block the employee from working there.

Despite this prohibition, the DTSA contemplates that injunctions may be used to place *conditions* on employment, as long as they do not conflict with state laws prohibiting restraints on trade and as long as they are "based on evidence of threatened misappropriation and not merely on the information the person knows."

Employers who are seeking or responding to such injunctions should carefully evaluate the existence of such evidence. If a claim of misappropriation is made in bad faith, attorneys' fees are available to the prevailing party.

4. Be Prepared for the Brand New Federal Seizure Remedy

Finally, in addition to damages, royalties, and injunctive relief, the DTSA creates a new remedy for trade secret owners. In "extraordinary circumstances," it allows them to seek an order, *on an ex parte basis*, for the seizure of property necessary to prevent the propagation or dissemination of a trade secret—*without notice*.

Seizure will only be granted if the employer can satisfy strict requirements, including: (i) establishing that the injunctive relief otherwise available is insufficient; (ii) describing with reasonable particularity the matter to be seized and, to the extent reasonable under the circumstances, identifying the location where the matter is to be seized; and (iii) establishing that the seizure target would destroy, move, hide, or otherwise make such matter inaccessible to the court, if given notice. There are also other requirements, such as the need to show a likelihood of success in proving misappropriation and a bar on publicizing the requested seizure.



Employers should have a program in place for exit interviews that addresses employee access to confidential information, ensures the return of all confidential and proprietary information, inventories devices, preserves forensic evidence, and reminds employees of their legal obligations, among other things. While these steps are not new, the availability of seizure orders is a reminder that taking swift action to recover one's trade secrets requires focused attention and substantial proof. In the employment scenario, the exit interview is a critical time to lay the groundwork for such an action.

Call Us for Help to Get Compliant

Please contact any member of the Employee Mobility and Trade Secrets Practice Group listed below for guidance to ensure your company is DTSA compliant.



If you have any questions concerning these developing issues, please do not hesitate to contact any of the following Paul Hastings lawyers:

Los Angeles

Elena R. Baca
1.213.683.6306
elenabaca@paulhastings.com

Jennifer S. Baldocchi
1.213.683.6133
jenniferbaldocchi@paulhastings.com

Palo Alto

Bradford K. Newman
1.650.320.1827
bradfordnewman@paulhastings.com

Washington D.C.

Carson H. Sullivan
1.202.551.1809
carsonsullivan@paulhastings.com

Paul Hastings LLP

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