

# Client Alert **Employment & Labor**

## *The Federal Defend Trade Secrets Act: Impact on Employers*

On May 11 2016, President Obama signed The Defend Trade Secrets Act (“DTSA” or the “Act”). Effective immediately, the DTSA creates a federal civil cause of action that allows companies to file civil lawsuits for trade secret theft under the federal Economic Espionage Act. Before the passage and signing of the DTSA, the statute only provided for criminal cases brought by prosecutors. Civil trade secret cases had to be brought under state law. While the DTSA provides an added layer of protection for companies’ trade secrets, its impact on employers is more uncertain.

### **Federal Cause of Action**

Prior to the DTSA, victims of trade secret theft could only bring civil causes of action under state trade secret laws. These laws vary widely despite the fact that many states have passed some formulation of the Uniform Trade Secrets Act. The DTSA provides a federal civil cause of action covering any trade secret “related to a product or service used in, or intended for use in, interstate or foreign commerce.” There is a three year statute of limitations which is triggered on the date on which the trade secret misappropriation was discovered or “by the exercise of reasonable due diligence should have been discovered.” The availability of a federal trade secret cause of action could make interstate trade secret disputes more efficient by reducing choice of law disputes that happen when it is uncertain which state’s trade secret law should apply and also provides access to federal courts which are accustomed to addressing sometimes complex issues of formulations and

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technical information that is often necessary in these cases. However, the DTSA does not preempt state trade secret actions, so forum shopping and choice of law disputes will remain prevalent.

### Seizure Clause

Along with providing a federal cause of action, the DTSA affords victims of trade secret theft an *ex parte* seizure proceeding to prevent the propagation of misappropriated trade secrets. Such an order can be obtained only under “extraordinary circumstances.” For a seizure order to issue, the trade secret owner must show, *inter alia*, that the accused party has actual possession of the trade secret and that an immediate and irreparable injury will occur without the seizure.

Companies should exercise caution when invoking the DTSA’s seizure provision because the Act also provides that parties who have been accused of trade secret theft will have a claim for damages as a result of any wrongful seizure and demand the return of any material that was wrongfully seized along with the trade secret information.

### Restrictions on Employee Mobility

The DTSA contains provisions related to employee mobility. The Act restricts the availability of injunctive relief to “prevent a person from entering an employment relationship” and provides that if an injunction were to place conditions on a person’s employment, such restrictions must “be based on evidence of threatened misappropriation and not merely on the information the person knows.” This provision effectively rejects the inevitable disclosure doctrine applicable in certain jurisdictions, whereby an employer can enjoin a former employee from working in a new job that would inevitably result in the use of the employer’s trade secrets. Under the inevitable disclosure doctrine, an employer does not have to provide evidence of actual or threatened misappropriation of trade secrets, just the former employee’s knowledge of such trade secrets. This claim will not be available under the DTSA. Lastly, the DTSA prohibits the issuance of an injunction which would “conflict with an applicable State law prohibiting restraints on the practice of a lawful profession, trade or business,” so employers in states that are more restrictive vis a vis non competes, will still be governed by those state laws.

### Whistleblower Immunity

The Act’s most employee friendly clause, provides immunity to employees who disclose trade secrets either to the government for the purpose of reporting or assisting in an

investigation of a suspected violation of law, or in a complaint filed in a lawsuit or related proceeding if such a filing is made under seal. Also, an individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may reveal the trade secret to his or her attorney and utilize the trade secret information in the proceeding if the person files any document containing the trade secret under seal and does not disclose the trade secret except under court order.

The whistleblower provision contains a notice requirement that applies to any employer that utilizes employment contracts that concern the use of trade secrets. The Act requires employers to “provide notice of the [whistleblower] immunity . . . in any contract or agreement with an employee that governs the use of a trade secret or other confidential information.” The employer may instead, provide in the contract a cross-reference to a policy document provided to the employee that sets forth the employer’s reporting policy for a suspected violation of law. Employers who neglect to comply with the Act’s notice requirements lose the ability to recover exemplary damages and attorneys’ fees under the DTSA in actions brought against employees or independent contractors who were not given the notice. This requirement applies to any new agreements or revisions to agreements made as of May 11, 2016, the date of enactment of the Act.

### Employer Tips

The DTSA offers a mixed bag for employers. While the Act provides a federal trade secret cause of action (and the concomitant promise of more uniformity), it does not preempt state trade secret law, so forum shopping and choice of law issues will remain. The Act provides for a robust *ex parte* seizure proceeding to prevent the dissemination of trade secrets, but also a wrongful seizure cause of action for the accused party which could lead to costly satellite litigation. The Act limits an employer’s ability to restrict a former employee’s subsequent employment by requiring the employer to provide evidence of threatened misappropriation, rather than merely evidence of what the employee knows. Finally, the Act provides immunity for individuals who disclose trade secrets in whistleblowing situations and in retaliation lawsuits, simultaneously requiring employers to notify all employees or independent contractors subject to employment contracts that touch on trade secrets about the whistleblowing immunity. The whistleblowing notice requirements add costly administrative and legal burdens to employers who utilize such contracts.

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The following attorneys in our Employment and Labor Law Practice Group can assist employers in navigating the Act in order to interpret and comply with its provisions.

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