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The Defend Trade Secrets Act of 2016: Practical Considerations

President Obama recently signed the Defend Trade Secrets Act of 2016 (the “DTSA”), which empowers a company that owns a trade secret¹ to bring a civil action against someone who misappropriates (steals) that trade secret, if the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce. Previously, trade secrets have been protected only at the state level, with most states adopting their own version of the Uniform Trade Secrets Act. The enactment of the DTSA provides a method for companies to seek relief for trade secret misappropriation in federal court and with uniformity in all states.

The DTSA provides the company that is the subject of trade secret misappropriation the right to injunctive relief (including seizure of property necessary to prevent the propagation or dissemination of the trade secret) and recover damages from the misappropriator. If the misappropriation was malicious, the company could recover exemplary damages (punitive damages) and its attorney’s fees.

The DTSA provides immunity for whistleblowers (people who are reporting violations of law) and claims for illegal retaliatory terminations. For example, if an employee reports a company’s illegal dumping of hazardous waste or Medicare fraud to a federal agency, the company would not² have a claim against the employee with respect to the disclosure of trade secrets in connection with that report. Similarly, if the company illegally terminated the employee’s employment in retaliation for that report, and the employee brought a lawsuit in connection with the illegal termination, the company would not² have a claim against the employee with respect to the disclosure of trade secrets in connection with that lawsuit.

However, if the company does not provide notice of the whistleblower immunity provided by the DTSA, the company would lose its right to recover exemplary damages and its attorney’s fees in connection with malicious misappropriation. In any contract with an employee or any other individual performing work as a contractor (such as a franchisee or area

¹ A “trade secret” is information (including a formula, pattern, compilation, program, device, method, technique or process) that (a) derives actual or potential independent economic value from not being generally known or readily ascertainable through appropriate means by others who might obtain economic value from its disclosure or use (such as competitors) and (b) is the subject of reasonable efforts to maintain the secrecy of the information. These efforts could include the use of passwords, limiting access to files on a need-to-know basis, employing confidentiality or nondisclosure agreements, labeling information as “confidential” or retaining the information in a safe or a locked file cabinet.

Trade secrets can be a company’s most valuable asset and frequently are a franchisor’s most valuable asset. Trade secrets can include a wide range of information including financial, technical, economic and engineering information. Examples of trade secrets include recipes (your “secret sauce”), customer lists, pricing and cost information, computer code, product designs, manufacturing specifications and marketing and sales strategies.

² Assuming that certain requirements have been met.

developer) or a consultant that governs the use of a trade secret or other confidential information and is signed or amended on or after May 12, 2016, the company must include³ notice of the whistle blower immunity provisions of the DTSA. That disclosure might be stated as follows:

“You will 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 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.

If you file a lawsuit for retaliation by us for your reporting a suspected violation of law, you may disclose the trade secret to your attorney and use the trade secret information in the court proceeding, if you file any document containing the trade secret under seal and do not disclose the trade secret except pursuant to a court order.”

If you enter into a new employment, independent contractor or consulting contract, or amend an existing contract, that contract must include disclosure of the immunity provisions of the DTSA; otherwise you will forfeit the right to recover exemplary damages and attorney’s fees. At this time it would also be advisable to review your information that you consider confidential or proprietary to evaluate whether it would qualify as a “trade secret” and to establish (or confirm enforcement of) reasonable efforts to maintain the secrecy of the information.

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³ Alternatively, the company may provide in the contract a cross reference to a policy document (such as an employee or operating manual) provided to the employee, contractor or consultant that states the company’s reporting policy for a suspected violation of law.