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Employers Gain New Federal Trade Secret Protections, Must Notify Employees to Obtain Certain Remedies

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Until now, employers seeking relief for trade secret misappropriation were limited almost exclusively to state law remedies. With the enactment of the Defend Trade Secrets Act ("DTSA") on May 11, 2016, employers now have federal remedies, which supplement existing state law remedies. The DTSA includes a controversial *ex parte* seizure provision and several other legal and equitable remedies, some of which are more limited than those available under most state laws. Some of the new forms of relief require employers to make specific notifications to employees in contracts or agreements governing confidentiality or trade secrets.

The DTSA provides for:

- Access to the federal courts for trade secret misappropriation claims;
- Injunctive relief to prevent actual or threatened misappropriation, including orders to take "affirmative actions" to protect a trade secret where appropriate;
- *Ex parte* seizure of property to protect a trade secret, in "extraordinary circumstances," upon a clear and specific showing that irreparable injury will occur without a seizure because the defendant will defy, avoid, or evade other forms of injunctive relief;
- Damages for actual loss and unjust enrichment;
- A reasonable royalty for the disclosure or use of a trade secret, in lieu of other remedies, under appropriate circumstances;
- Exemplary damages in an amount not more than two times the amount of the damages awarded, if the misappropriation is willful and malicious; and
- Attorneys' fees, if the misappropriation is willful and malicious.

The DTSA is similar to the Uniform Trade Secrets Act ("UTSA"), some version of which has been enacted in all states except New York and Massachusetts. The definitions of "trade secret" and "misappropriation" are largely the same as under the UTSA, and many of the remedies are similar. The DTSA also conforms to state law by providing that injunctive relief may not "conflict with an applicable State law prohibiting restraints on the practice of a lawful profession, trade, or business."

The DTSA's provision for an *ex parte* seizure of property adds a remedy not available to employers under the UTSA. However, concerns raised during the legislative process about potential abuse of *ex parte* seizure applications led to the adoption of stringent requirements for clear and specific showings that such relief is necessary and the inclusion of procedural protections for the rights of defendants and third parties.

Some of the DTSA's other remedies are more limited than those available under the laws of most states. Injunctive relief under the DTSA may not "prevent a person from entering into an employment relationship," and any conditions placed on employment must be "based on evidence of threatened misappropriation and not merely on the information the person knows." State law will provide broader remedies where restrictions on employment can be imposed under non-competition agreements or the "inevitable disclosure" doctrine.

The DTSA grants immunity from civil or criminal liability under any state or federal trade secret law for filing trade secret information under seal in court or confidentially disclosing a trade secret to a government official or an attorney for the purpose of reporting or investigating a suspected violation of law. The DTSA requires employers to notify employees of this immunity in any employment contract or agreement addressing trade secrets or confidentiality that is entered into or updated after the DTSA's enactment.

An employer who fails to provide the required notice to an employee cannot obtain exemplary damages or attorneys' fees in an action against that employee under the DTSA. However, if the applicable state law

provides for exemplary damages or attorneys' fees, those remedies may still be available even where the employer has not provided the notice required under the DTSA.

Employers may face exposure to misappropriation claims under the DTSA when hiring employees from competitors. "Misappropriation" includes the acquisition or use of a trade secret by a person who knew or had reason to know that the trade secret was acquired through improper means or under a duty to maintain its secrecy. Thus, a competitor may claim that its employee was hired away with reason to know that the employee had trade secret information and a duty not to use or disclose it. The DTSA's new remedies create additional reasons for employers to take precautionary measures when hiring an employee from a competitor, such as obtaining written representations that the employee does not have and will not use or disclose any trade secrets belonging to the competitor.

McCarter & English's Labor and Employment Practice Group prosecutes and defends against trade secret misappropriation claims and advises employers on policies and procedures to protect trade secrets as well as to protect against claims of misappropriation when hiring employees from competitors. If you have questions about measures employers can take to protect trade secrets or to protect against misappropriation claims when hiring new employees, or if you have any questions about the DTSA, please contact any member of McCarter & English's Labor and Employment Practice Group.

If you would like additional information on this topic, please contact a member of the Labor & Employment Law Group linked here or your lawyer at McCarter & English, LLP.