



THE NEW “DEFEND TRADE SECRETS ACT” OF 2016 Update Your Contracts and Policies to Capitalize On It and Comply with Other Recent Developments

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Two recent developments necessitate that owners of confidential proprietary information take immediate steps to review and update contracts and policies. First, the recently enacted **Defend Trade Secrets Act** of 2016 (DTSA), patterned after the Uniform Trade Secrets Act (UTSA), gives owners of confidential proprietary information important new tools and options for protecting valuable trade secrets. But there are steps that must be taken to capitalize on the advantages of the DTSA. Those steps are highlighted below.

Second, on August 10, 2016, a building products distributor agreed to pay the SEC a civil penalty of \$265,000 in part for including language in severance agreements that prohibited employees from disclosing confidential information or trade secrets unless compelled by law to do so and only after first informing the company and securing the company's written consent. Rules implementing the Dodd-Frank Act's whistleblower protections prohibit impeding a person from reporting suspected wrongdoing to the SEC, including through enforcement or threatened enforcement of a confidentiality agreement. As part of the settlement, the company agreed to amend its severance agreements to remove the offending provisions. Steps you should consider taking to comply with Dodd-Frank are summarized below.

BENEFITS OF THE NEW DTSA

- Empowers trade secret owners to sue in and remove actions to federal court (18 U.S.C. § 1836(b)).
- Three year statute of limitations running from discovery of the misappropriation.
- Allows injunctive relief, compensatory damages, royalties, punitive damages, attorney fees and costs.
- Also allows injunctive relief limiting what former employees, consultants, and contractors can do for new employers to prevent even the threatened misappropriation and disclosure of trade secrets.
- Allows for very potent ex parte seizure orders when injunctive relief clearly would be inadequate.
- Grants immunity from liability to whistleblowers who disclose trade secrets to governmental authorities.
- *Requires notice of whistleblower immunity to be incorporated in contracts and policies governing trade secrets and confidential information in order to recover punitive damages and attorney fees.*

STEPS TO TAKE TO CAPITALIZE ON THE DTSA

- **Review and Update Your Trade Secret and Proprietary Information Protection Strategies**
Confirm you are doing all you reasonably can and should do to protect your information, especially since more employees, consultants, and contractors are bringing their own devices to work and often work remotely.

- **Adopt or Update Agreements Covering Trade Secrets and Confidential Information**
To recover punitive damages and attorney fees and costs under the DTSA, contracts that contain confidentiality provisions must include the DTSA’s mandatory whistleblower immunity notice provisions. Examples of contracts that commonly include confidentiality provisions that should be updated include:
 - Employment Agreements, Independent Contractor Agreements, and Consulting Agreements
 - Separation Agreements, Severance Agreements, and Release of Claims/Settlement Agreements
 - Non-Compete, Non-Solicitation, and Non-Disclosure Agreements
 - Confidentiality and Proprietary Rights Agreements
 - Vendor Agreements (such as Software Evaluation and Software As A Service)
- **Adopt or Update Confidentiality Policies and Cross-Reference them in Your Contracts**
Employment policies covering confidentiality of trade secrets should contain the DTSA’s whistleblower notice. Cross-reference the DTSA-compliant confidentiality policies in new or updated contracts.
- **Audit and Consider Revising Forum Selection Clauses**
If your contracts limit venue to state court, consider revising them to allow a federal option.

STEPS TO TAKE TO COMPLY WITH SOX AND DODD-FRANK

- **Allow A Whistleblowing Exception to Confidentiality**
Ensure that agreements prohibiting disclosure of confidential information or trade secrets allow communication and cooperation with government agencies and participation in agency proceedings without having to obtain your prior approval and without loss of whistleblowing related relief.
- **Consider the SEC’s Sample Contract Language**
“Protected Rights. Employee understands that nothing contained in this Agreement limits Employee's ability to file a charge or complaint with the Equal Employment Opportunity Commission, the National Labor Relations Board, the Occupational Safety and Health Administration, the Securities and Exchange Commission or any other federal, state or local governmental agency or commission ("Government Agencies"). Employee further understands that this Agreement does not limit Employee’s ability to communicate with any Government Agencies or otherwise participate in any investigation or proceeding that may be conducted by any Government Agency, including providing documents or other information, without notice to the Company. This Agreement does not limit Employee's right to receive an award for information provided to any Government Agencies.”

Chris Thrutchley is an attorney of GableGotwals who assists and represents clients in the area of Labor and Employment Law, ERISA and general litigation. For help auditing and updating your employment practices and your intellectual property protection strategies contact **GableGotwals**. We will be glad to assist you.



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