

Notice of Rights Enhances Trade Secret Protection

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In order to access the full range of remedies the Defending Trade Secrets Act of 2016 (DTSA) offers, a trade secret owner must notify employees and contractors of certain rights they have under the DTSA.

The DTSA allows a trade secret owner to seek damages and injunctive relief in federal court against someone who misappropriates the company's trade secrets. The trade secret must be related to a product or service used or intended for use in interstate or foreign commerce. The action must be brought within three years after the misappropriation was discovered or reasonably should have been discovered. And the misappropriation must have occurred after the date of the DTSA enactment, May 11, 2016.

If trade secrets are misappropriated willfully and maliciously, the court may award (i) exemplary damages equal to twice the amount of the actual loss and (ii) attorneys' fees.

But a trade secret owner can forfeit the right to recover exemplary damages and attorneys' fees by neglecting to follow one simple requirement. The trade secret owner must notify employees and contractors that they are protected against liability for disclosing trade secrets in certain circumstances. This notice applies to agreements entered into or updated after the date the DTSA went into effect. In other words, franchisors and other trade secret owners should update their documents now.

The notice might look something like this:

Nothing in this Agreement is intended to prohibit you from exercising your rights under the Defending Trade Secrets Act of 2016. You have the right to disclose our trade secrets in each of the following circumstances without incurring criminal or civil liability:

- You may disclose our trade secrets (i) in confidence to a federal, state or local government entity, or to an attorney, solely for the purpose of reporting a suspected violation of law or in an investigation of a suspected violation of law, or (ii) in a legal proceeding under seal.
- You may disclose our trade secrets in a complaint or other document filed in a lawsuit or other proceeding as long as the filing is made under seal. This includes a lawsuit you may file for retaliation by us for your reporting a suspected violation of law to a government entity. You may not otherwise disclose any trade secret or confidential information except pursuant to a court order.

Who must receive this notice?

The trade secret owner must give the notice to its employees. But the term “employee” has a broad meaning in the DTSA. In addition to actual employees, the term “employee” includes “any individual performing work as a contractor or consultant for an employer”.

Franchisees are independent contractors

While it is not clear what the statute means by “a contractor or consultant for an employer”, it is plausible that a court might view a franchisee as one who requires notice under this provision. For this reason, franchisors should provide notice both to their employees and franchisees, and to other contractors who may have access to trade secrets.

Where should the notice appear?

It should appear in any contract with an employee or contractor “that governs the use of a trade secret or other confidential information.” This might include the franchise agreement and any confidentiality agreement or other agreement with a confidentiality provision. Alternatively, it can appear in the trade secret owner’s policy document provided to employees that sets forth the employer’s reporting policy for a suspected violation of law as long as the employer provides a cross reference to that policy document.

In other words, existing agreements need not be amended as long as the policy statements referred to in those agreements are updated to include this notice. This means that trade secret owners, including franchisors, should update their employee manuals, and franchisors should also update their franchise operations manuals. New franchise agreements and confidentiality agreements should also contain the required notice, or at least a cross reference to the document that does contain the notice.

The enactment of the DTSA is a positive development. It will likely lead to a more uniform law of trade secrets throughout the U.S. In addition, the ease of bringing an action in federal court or removing an action from state court to federal court can meaningfully affect the outcome of the case to the benefit of the franchisor or other trade secret owner. But to get the maximum benefit from the DTSA, trade secret owners should be sure to give the required notice to their employees, franchisees and other contractors.