

Employer Alert: New Federal Law Protects Company's Trade Secrets But Employers Must Take Steps To Gain The All Of The Benefits Of The Act

AUTHOR: TIMM SCHOWALTER

On April 27th Congress passed the Defend Trade Secrets Act of 2016 (S.1890 (DTSA)) and sent it to President Obama, who has indicated he will sign it into law. Employers will now be able to utilize federal courts and new remedies to protect themselves against the theft of trade secrets and illegal competition. This allows trade secret holders the option of going directly to federal court—with its certainty of rules, standards, and practices—and avoiding the potential uncertainty and delay of busier state courts.

The DTSA provides uniform definitions for “trade secrets” and “misappropriation” that are generally consistent with the Uniform Trade Secrets Act and allows for a civil action in federal courts. The DSTA also provides for a variety of remedies including: equitable relief, including an injunction to prevent actual or threatened misappropriation; economic damages; conditioning future use of the trade secret by the defendant (in some cases) upon payment of a reasonable royalty; exemplary damages (up to two times the amount of damages), and prevailing party attorneys’ fees.

Perhaps the biggest game changer is the DTSA’s grant of power to federal courts to issue an order without notice to the other side to seize property to preserve evidence or prevent the propagation or dissemination of the trade secret. The possibility that a court can now seize computers, cell phones, or other devices that may contain a stolen trade secret is a dramatic change and effective post-employment tool.

The DTSA also provides protection from prosecution for whistleblowers and retaliation against whistleblowers. Now, this is where the DTSA requires employers to take immediate measures to claim the benefits of the law. Specifically, the DTSA provides that employers must give notice of the immunity provisions of the law in any contract or agreement with an employee that governs the use of a trade secret or other confidential information. Otherwise, the employer is unable to recover attorneys’ fees or exemplary damages.

Employer Actions: Examine all contracts and confidential information protection policies and agreements with employees and independent contractors to evaluate the need for notice language regarding the DTSA whistleblower and retaliation claimant protections. Inclusion of this language can help preserve all remedies for misappropriation. Note: the immunity language is only necessary in agreements signed after the effective date of the DTSA.