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EMPLOYMENT & IMMIGRATION

How To Reap the Benefits of the New Federal Trade Secret Misappropriation Law

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Employers looking to heighten available protection of valuable trade secrets are welcoming the arrival of the Defend Trade Secrets Act, a federal statute that went into effect May 11. The DTSA permits trade secret owners to file misappropriation claims in federal court, but only those owners who first implement some important changes to confidentiality agreements can reap the full scope of benefits of the new law.

The DTSA, which applies to publicly and privately held companies alike, received near-universal bipartisan support in Congress. The law does not apply retroactively, so it can only be invoked to combat misappropriation claims occurring on or after May 11. A claim accrues under the statute when the misappropriation is discovered, or where, by the exercise of reasonable diligence, misappropriation should have been discovered, and is subject to a three-year statute of limitations.

Substantively, the law extends the Economic Espionage Act, which criminalizes trade secret theft, by creating a federal civil cause of action for trade secret misappropriation. While the DTSA will co-exist with, and not preempt, state trade secret laws, nearly all of which derive from the Uniform Trade Secrets Act and are subject to jurisdiction-by-jurisdiction variations, the federal statute should lead to a more uniform body of case law and, hopefully, faster and more uniform resolutions of these disputes. In addition, by virtue of opening the federal courthouse doors to trade secret misappropriation cases, companies can now use the discovery rules available to litigants in federal court, and, notably, nationwide subpoena power.

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The DTSA may also prove to be a more powerful tool than state laws, as its definition of "trade secrets" arguably includes a wider range of "financial, business, scientific, technical, economic or engineering information" that: (i) is secret; (ii) has been subjected to reasonable protective measures; and (iii) derives independent economic value from not being generally known or available to others. The DTSA should also be popular for its ex parte seizure provisions, which permit victims of trade secret theft to petition the court, without providing advance notice to the defendant, for an order to seize the materials at issue (e.g., computers, hard drives, storage media or electronically stored information) pending resolution of the case. Companies must use these seizure provisions with caution, however, as victims of a wrongful seizure will be entitled to a host of damages from the offending company, including punitive damages and attorney fees.

Although not the act's main focus, the most pressing aspect of the DTSA for employers is the requirement that agreements with employees, contractors and consultants addressing confidential information be amended to include certain notices and disclosures. Specifically, the DTSA provides civil and criminal immunity for employees, contractors and consultants who:

1. Disclose trade secrets in confidence to the government or their lawyers for the purpose of reporting or investigating a suspected violation of law;
2. Disclose the trade secrets to their personal attorneys in connection with a lawsuit alleging retaliation for reporting a suspected violation of law; or
3. Disclose or use the trade secret in any complaint or other document filed in a lawsuit so long as they file the trade secret information under seal.

In accordance with these mandates, employers "shall" provide notice of these immunities "in any contract or agreement with an employee that governs the use of a trade secret or other confidential information." With the DTSA defining "employee" to include employees, contractors and consultants, everyday business documents providing for trade secret protection, such as employment agreements, non-disclosure agreements, restrictive covenant agreements, intellectual property agreements and separation agreements, among others, should be amended to include these disclosures. Alternatively, employers can cross-reference a "policy document" in these agreements that "sets forth the employer's reporting policy for a suspected violation of law," though employers choosing this option must ensure the "policy document" is: (i) actually provided to the employee, contractor or consultant; and (ii) details the statutory immunities set forth above.

Again, the notice provision only applies to agreements executed on or after May 11, so there is no need to revise prior agreements. However, if an existing agreement is renewed for a new term, including one which provides for automatic renewals, these disclosures should indeed be added. While employers who fail to provide the notice can still file suit under the DTSA, they cannot recover exemplary damages (up to two times actual damages) and attorney fees in the process. In the grand scheme of trade secret litigation, which can be highly technical, heavy on discovery and lengthy to try, these are not the types of damages companies should be willing to forgo. In short, to enjoy the full extent of the statute's protections, employers should identify the agreements it uses to govern trade secrets and confidential information, and insert the immunity notices as soon as possible. It is a small price to pay for a potentially significant damages award. ■

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