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CLIENT ALERT

EMPLOYMENT LAW IMPACTS OF FEDERAL TRADE SECRET LAW AMENDMENTS

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The Defend Trade Secrets Act of 2016 (DTSA), recently signed into law by President Obama, broadens options that companies have to sue for the misappropriation of trade secrets. The DTSA adds provisions relating to potential trade secret misappropriation that will be of interest to employers.

New subsection 18 U.S.C. § 1833(b) offers immunity against liability, federal and state, and criminal and civil, to an employee who discloses a trade secret in two circumstances:

- in confidence to a government official if solely for the purpose of reporting or investigating a suspected violation of law; and

- in a lawsuit, including lawsuits in which the employee accuses the employer of retaliation for "reporting a suspected violation of law"; however, any documents filed in court containing the trade secret must be filed under seal. The employee may not otherwise disclose the trade secret except pursuant to a court order.

These provisions effectively permit employees to disclose trade secrets in connection with "whistleblowing." In either scenario, employees also have the right to disclose trade secrets to their attorneys.

To fully preserve their rights under the DTSA, employers must provide notice of the new immunity provision to employees. The notice must be included in "any contract or agreement with an employee that governs the use of a trade secret or other confidential information." Notice may be accomplished by a simple cross-reference in an employment policy that sets forth the employer's reporting policy for a suspected violation of law. Note that, while the DTSA is now in effect, this notice obligation applies only to contracts and agreements that are entered into or updated in the future.

The only direct consequence of failing to provide the immunity notice is that an employer's remedies will be limited if it successfully sues an employee for misappropriation. Specifically, absent the notice, the employer will not be able to obtain exemplary damages or recover attorney fees relating to the lawsuit.

The DTSA's definition of employee includes not only traditional employees but also "any individual performing work as a contractor or consultant for an employer."

Finally, the DTSA specifies that it does not authorize, or limit liability for, an act that "is otherwise prohibited by law, such as the unlawful access of material by unauthorized means." Accordingly, employees remain liable, and do not enjoy immunity, for such things as theft of trade secrets.

To comply with the new law, employers should review and update applicable policies, procedures and form agreements governing the use of confidential, proprietary and trade secret information. These may include employment agreements, independent contractor agreements, consulting agreements, separation and release agreements, severance agreements, non-compete and non-solicitation agreements and confidentiality and proprietary rights agreements. If you have questions or if you would like assistance with this or any other matter, please do not hesitate to contact us.