Important DTSA Provisions for Employers

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The new Defend Trade Secrets Act ("DTSA"), arguably the most sweeping change to intellectual property law in decades, creates a nationwide trade secrets law that gives litigants easier access to federal courts. Although the new law makes a number of major changes, several of its provisions are of particular interest to employers.

Previously, trade secrets were exclusively the domain of state law. The DTSA creates a truly nationwide trade secrets law that should promote uniform enforcement and enhance predictability in this area of law. However, employers, particularly those with locations in multiple states, should be aware that the new federal law does not preempt state law. Employers still need to pay attention to special provisions or limitations imposed by state law. Though the trade secrets law of most states is based on the Uniform Trade Secrets Act, there are variations from state to state that should not be ignored.

Second, the new law prohibits a court from issuing an injunction against misappropriation of trade secrets where the injunctive relief would prevent an employee from entering into an employment relationship. Moreover, any conditions placed by a court on employment in such an injunction must be based on actual evidence of threatened misappropriation, and not merely on information a person knows. In other words, there must be actual evidence of threatened misappropriation, not merely that an employee or former employee knows trade secrets and could or might disclose them. These limitations were included in the law to protect employee mobility and prevent employers from obtaining relief under the law on the theory of "inevitable disclosure." That theory holds that an employee, who knows trade secrets from a prior employer and is placed in a similar position with his new employer, will inevitably disclose the trade secrets. Some states have laws that safeguard employee mobility by prohibiting injunctive relief based on inevitable disclosure; others permit it. The new federal law prohibits relief under that theory, but makes clear that it does not alter or override state law, whatever it may be.

Third, the new law contains important new provisions to protect whistleblowers who disclose trade secrets. The DTSA contains an immunity provision that protects individuals such as employees and former employees from liability for disclosing a trade secret in confidence to a government official or to an attorney for the purpose of reporting or investigating a suspected violation of law. The immunity created under this provision also applies to disclosure in a complaint or other document filed under seal in a judicial proceeding.

The new law also has an important new notice requirement for employers relating to this immunity. The law requires all employers to provide notice of the new immunity provision in any employment agreement they enter into with their employees governing trade secrets or confidential information.

The required notice must be given not only to employees, but also to independent contractors and consultants. An employer may choose to provide the notice simply by referring to a separate policy, if one exists, relating to the reporting of suspected violations of law. If an employer fails to provide the required notice, the consequence is that the employer may not recover punitive damages or attorneys' fees in a lawsuit brought under the law.

The new notice requirement, like the rest of the new law, is already in effect. It applies to all trade secrets agreements between an employer and its employees or independent contractors, entered into or restated after the date of enactment – May 11, 2016. For this reason, employers should consider updating their agreements regarding trade secrets and confidential information to make them comply with the new law and to reexamine their policies and practices to make sure that valuable trade secrets are fully protected under the law. Please contact the author or your attorney at Moss & Barnett with questions.

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