

The Defend Trade Secrets Act of 2016: What Business Owners Need to Know

Intellectual Property Update

Hinshaw Alert | 2 min read

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On May 11, 2016, President Obama signed into law the Defend Trade Secrets Act (DTSA) of 2016. It became effective immediately.

The DTSA — which amends the Economic Espionage Act (18 U.S.C. § 1831) — establishes a federal trade secrets law that can be enforced in federal court. Owners of trade secrets or confidential information used or intended to be used in interstate or foreign commerce can pursue a variety of civil remedies in federal court. Claims must be filed within three years from the time that the misappropriation was discovered or should have been discovered.

New Remedies

One of the most controversial of the new remedies is *ex parte* seizure. An aggrieved party can petition the court to order law enforcement officials to seize, *ex parte*, only under extraordinary circumstances, any property “necessary to prevent the propagation or dissemination of the trade secret.” Other remedies include damages, injunctive relief (or reasonable royalty damages if an injunction is inequitable), and punitive damages of up to twice the amount of actual damages awarded. Trade secret misappropriation occurring outside the United States by a U.S. citizen or corporation is also covered by the new law.

Safe Harbor Permits Employees to Disclose Employer’s Trade Secrets to Governments

The DTSA also includes complicated safe harbor provisions applicable to both federal and state law, permitting employees and other individuals to disclose the employer’s trade secrets: (1) to a federal, state or local government to investigate a suspected violation of law; and (2) in a lawsuit filing under seal which may be in an employee-filed anti-retaliation lawsuit. The safe harbor provisions grant both criminal and civil immunity for such activity.

Employers should notify employees in any new or updated contract that is related to trade secrets or confidential information of their rights under the safe harbor provisions. This notice should be in writing. Employers who

pursue a theft of trade secrets claim will not be able to recover attorneys' fees or exemplary damages against an employee to whom such notice was not provided. Businesses should also consider including the required notice in confidentiality agreements with independent contractors, vendors and other business associates. Employer disclosure of trade secrets preferably should be made to employees and contractors only on a need to know basis and only when suitable nondisclosure agreements are in place prior to any disclosure.

Takeaways

Given the increasing amount of trade secret theft, this new law provides a welcome new federal civil cause of action and substantial additional remedies over prior laws, even where the wrongful activity occurs outside the United States. Employers should provide written notice to employees and contractors of the safe harbor provisions in new and updated agreements. Employers who suspect that current or former employees, consultants or competitors have misappropriated trade secrets for use in other businesses or with foreign nationals should evaluate their potential claims under this new law.

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