Human Resource Departments: Immediate Action Required Under the Defend Trade Secrets Act

WHEN: Beginning on May 12, 2016, a new federal law requires all employers to provide a notice-of-immunity to employees and contractors "in any contract or agreement with an employee [or consultant or independent contractor] that governs the use of a trade secret or other confidential information." This requirement applies "to contracts and agreements that are entered into or updated after the date of enactment of this subsection [May 12, 2016]," and thus presumably does not require immediate amendment of preexisting agreements. However, the notice requirement must be included in any new agreements.

WHAT: The Defend Trade Secrets Act ("DTSA") amends 18 U.S.C. 1832 to provide limited whistle blower immunity for employees who disclose trade secrets. An action that would otherwise count as trade secret misappropriation will fall into the safe harbor if the disclosure:

> (A) is made (i) in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.

The DTSA also protects limited disclosure of trade secrets when an employee files a retaliation claim based on reporting a suspected violation of law against an employer.

This whistle blower protection does not mean that the employee is free to disclosure an employer's trade secrets to the press or the general public. The safe harbor is limited to disclosures to attorneys and government officials, or in court proceedings. Practically, the whistle blower will be allowed to "use the trade secret information in the court proceeding" so long as he or she files the documents containing the trade secrets under seal and does not disclose them except by court order.

HOW: All new contracts or agreements with employees, independent contractors, and consultants that deal with trade secrets or confidential information must include this notice. The DTSA does not specific the required language, and it allows employers to make this disclosure by reference to a policy document. For example, the agreement may reference an employer's

handbook which specifies the employer's reporting policy for a suspected violation of the law, instead of restating that policy in full in each agreement.

WHO: All companies that have agreements concerning trade secrets or confidential information must provide this notice. There is *no* small-business exception to the notice requirement.

The notice requirement applies to employees as well as "any individual performing work as a contractor or consultant for an employer." Although the statute does not define "individual," it appears that the notice requirement applies to natural persons, not companies, so you would not need to include this notice provision in a business-to-business contract.

Because this is a new requirement that has not yet been interpreted by the courts, a conservative approach would be to ensure that all employees, consultants, independent contractors, and employees of contractors receive the notice. For example, if your company hires a cleaning contractor and requires that those employees sign non-disclosure agreements, be sure that this notice provision is included in that agreement as well.

OR ELSE?: If the employer fails to provide the required notice and later sues the employee or independent contractor for trade secret misappropriation under the DTSA, the employer will **not** be able to collect the exemplary double-damages or attorney's fees that give the DTSA its teeth (though the employer may still be entitled to exemplary damages or attorney's fees under state law.)

The statute does not specify whether or not there could be additional penalties. However, it is possible that, since all contracts involving trade secrets or confidential information require the notice, failure to provide it could be seen as evidence that there was no trade secret agreement, or that the agreement did not involve trade secrets in the first place. Employers that fail to provide this notice should also be concerned about potential class action suits and FTC and SEC enforcement actions.

WHY: The DTSA was enacted as a way to federalize trade secret protection, where previously trade secret actions had to be brought in state court. The notice requirement ensures that whistle blowers are not prevented from bringing wrongdoing to light due to fear of trade secret misappropriation claims.

The new law has been hailed as the biggest change to federal intellectual property law since the 2011 America Invents Act. While most states had already enacted the Uniform Trade Secrets Act, to which the DTSA is similar, Massachusetts and New York were hold-outs, and

Massachusetts companies may be particularly interested in their rights under the new federal law. In brief, the DTSA provides for:

- Access to the federal courts for trade secret misappropriation claims under the Economic Espionage Act;
- Injunctive relief to prevent actual or threatened misappropriation;
- *Ex parte* seizure of property to protect a trade secret, in "extraordinary circumstances," upon a clear and specific showing that irreparable injury will occur without a seizure;
- Damages for actual loss and unjust enrichment;
- A reasonable royalty for the disclosure or use of a trade secret, in lieu of other remedies;
- Exemplary damages of double the amount of damages awarded, in cases where the misappropriation is willful and malicious; and
- Attorney's fees, if the misappropriation is willful and malicious.

While the law is likely to have wide-ranging implications for businesses concerned about protecting their trade secrets, the employee notice requirement outlined above requires immediate attention and action. You may also want to update any venue selection clauses in your employment agreements so as not to preclude bringing a federal action under this new law.

Kenney & Sams Employment Law Practice Group prosecutes and defends against trade secret misappropriation claims. It also helps its clients manage risk by advising them on policies and procedures to protect trade secrets as well as to protect against claims of misappropriation when hiring employees from competitors. If you have questions about these issues or about the new DTSA, please contact your lawyer at Kenney & Sams.