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New Federal Trade Secrets Law Requires Immediate Employer Action

Defend Trade Secrets Act

The newly enacted federal Defend Trade Secrets Act ("DTSA") amends the Economic Espionage Act of 1996 to create a federal civil cause of action for the misappropriation of trade secrets. Previously, trade secret theft was a federal crime, but companies wishing to seek civil damages could pursue only state law remedies which can be inconsistent from state to state. Under the DTSA, the owner of a trade secret may now bring a civil action in federal court to recover damages and obtain injunctive relief, among other remedies for misappropriation of trade secrets. The DTSA also provides to employees, consultants and independent contractors limited whistleblower immunity for disclosure of trade secrets under certain circumstances.

Notice of Immunity Requirement

Beginning on May 12, 2016, the DTSA 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 notice requirement applies to all contracts and agreements entered into or updated after May 12, 2016. The DTSA currently does not require immediate amendment of preexisting agreements. However, the notice requirement must be included in any new or updated agreements.

What Disclosures are protected?

The DTSA provides a safe harbor and limited whistleblower immunity to employees who disclose trade secrets under certain circumstances. Protected disclosures may be made in confidence to a federal, state, or local government official or to an attorney, when the disclosure is made solely for the purpose of reporting or investigating a suspected violation of law. A protected disclosure may also be 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 safe harbor, however, does not extend to employee disclosures of 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 so long as the employee files the documents containing the trade secrets under seal and does not disclose them except by court order.

What Do Employers Need to Do Now?

All new contracts or agreements with employees, independent contractors, and consultants that deal with trade secrets or confidential information must now include a notice of immunity. The DTSA does not require specific language or govern how the notice is to be given. Notice may be expressly included in the specific trade secret agreement or the agreement may refer to a written policy or an employee handbook which specifies the employer's reporting policy for a suspected violation of the law.

Because this new requirement has yet to be interpreted by the courts, a conservative approach would be to ensure that all employees, consultants, independent contractors, and employees of contractors receive the notice. If your company requires that employees sign non-disclosure agreements, be sure that this notice provision is included in that agreement as well.

What if an Employer Fails to Provide Notice?

If an 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 be unable to seek exemplary double-damages or attorneys' fees, important provisions for employers (though the employer may still be entitled to exemplary damages or attorneys' fees under state law).

Additionally, employers that fail to provide this notice should also be concerned about potential class action suits, as well potential enforcement actions by the Federal Trade Commission or the Securities Exchange Commission. The DTSA was enacted as a way to federalize trade secret protection, where previously trade secret actions had to be brought under state law, if any. The notice requirement ensures that whistleblowers are not prevented from bringing wrongdoing to light due to fear of trade secret misappropriation claims.

What Remedies does the DTSA Provide to Employers?

While most states have enacted the Uniform Trade Secrets Act, to which the DTSA is similar, Massachusetts, for example, has not. The DTSA provides all companies, including Massachusetts companies, among other things, access to the federal courts for trade secret misappropriation, injunctive relief to prevent misappropriation, damages for actual loss, and where the misappropriation is willful and malicious, exemplary damages of double the amount of damages

awarded, and attorneys' fees.

Immediate Action Required

The potentially wide-ranging implications of this new law are not yet known. However, all employers must give their immediate attention to the notice requirement. Employers may also want to review any venue selection clauses in existing employment agreements so as not to preclude bringing an action under this new law in federal court.

If you have any questions about the new DTSA, or need assistance in complying with the required notice of immunity please contact either Peter Bennett (pbennett@thebennettlawfirm.com), Rick Finberg (rfinberg@thebennettlawfirm.com) or Joanne Simonelli (jsimonelli@thebennettlawfirm.com).