



New Federal Trade Secret Statute Requires Important Updates To Contracts And Policies

Insights

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With the recent passage of the Defense of Trade Secrets Act (DTSA), businesses are welcoming the many benefits the statute brings, including federal jurisdiction, robust equitable relief, and the ability to recover compensatory damages, punitive damages, and attorneys' fees. However, in the midst of celebrating this new federal cause of action, many employers are overlooking a requirement embedded deep within the statute that requires revisions to existing confidentiality agreements and restrictive covenants.

Namely, employers are required to provide employees with notice that they are entitled to immunity if they disclose a trade secret for the purpose of reporting suspected illegal conduct. If employers fail to give notice in the manner required by the DTSA, they will not be able to recover punitive damages or attorneys' fees. Consequently, employers must pay careful attention to the DTSA notification requirements, which are not as straightforward as many believe.

New Law Covers Trade Secrets On A Federal Level

The DTSA provides plaintiffs with a federal cause of action for trade secret misappropriation. In addition to the ability to bring claims in federal courts, trade secret plaintiffs have a variety of potential remedies including injunctions that preclude actual or threatened misappropriation, compensatory damages, punitive damages no greater than two times compensatory damages, and attorneys' fees. In rare circumstances, courts are even authorized to issue orders directing federal officials to seize property containing a misappropriated trade secret.

DTSA Includes Widely-Overlooked Immunity Provision

Beyond the general provisions of the law, however, the DTSA also states that individuals shall not be held criminally or civilly liable under any trade secret law if they disclose the secret in confidence to a government official or an attorney solely for the purpose of reporting or investigating suspected unlawful conduct. This immunity also extends to disclosures made in court papers (or other proceedings) if the filing is made under seal. Finally, immunity is available for disclosures made within anti-retaliation lawsuits so long as the papers are filed under seal.

The statute contains a notification requirement requiring employers to provide notice to employees, which is defined broadly to include contractors. It states: "An employer shall provide notice of the immunity set forth in this subsection in any contract or agreement with an employee that governs the use of a trade secret or other confidential information." This notification requirement applies to

the use of a trade secret or other confidential information. This notification requirement applies to agreements entered into or amended after the date of enactment of the DTSA. Consequently, the immunity notification requirement presents two issues: what does it mean to “provide notice of the immunity,” and what “contracts or agreements” are covered by the statute?

Providing Notice Of Immunity

Employers have two options for providing employees with notice of the DTSA immunity. First, they can provide notice within their agreements. Second, employers can include in their agreements a “cross-reference to a policy document provided to the employee that sets forth the employer’s reporting policy for a suspected violation of law.” These options and related issues are discussed below.

Option 1: Provide Notice Within The Agreements

The DTSA states an “employer shall provide notice of the immunity set forth in [the statute] in any contract or agreement with an employee that governs the use of a trade secret or other confidential information.” The statute does not say how detailed the notice must be. Employees will undoubtedly argue that they must be notified of the full extent of the immunity.

The problem, however, is that the immunity provisions set forth in the DTSA are lengthy and not easily paraphrased. Consequently, providing notice of the immunity in the statute cannot be done in just a few words. If employers paraphrase the immunity in the DTSA, employees could argue that notification is not sufficient.

For this reason, the safest course of action is to attach a copy of the DTSA immunity provision to agreements. Employers who choose not to do so should include language within their agreements along the following lines:

I understand that notwithstanding the foregoing, nothing in this Agreement prohibits me from reporting to any governmental authority information concerning possible violations of law or regulation and that I may disclose trade secret information to a government official or to an attorney and use it in certain court proceedings without fear of prosecution or liability provided I do so consistent with 18 U.S.C. 1833.

What language suffices is a question that will play out in court over the years to come. The bottom line is: the more detailed the notification, the more likely it will suffice.

Option 2: Cross-Reference A Policy Document Within Agreements

The DTSA states that employers shall be considered to be in compliance with the notice requirement if they provide “a cross-reference to a policy document provided to the employee that sets forth the employer’s reporting policy for a suspected violation of law.” However, the statute leaves some significant questions unanswered.

Specifically, the statute does not state whether the policy must be provided in hard copy to the employee, or whether the policy must be provided to the employee at the same time the agreement

is provided. The conservative move, therefore, is to provide a hard copy of the policy to the employee at the same time the agreement is presented.

Perhaps more importantly, the statute does not indicate what the policy must say. In determining a best course of conduct regarding content, it should be noted that requirements may differ from state to state. For example, the California Division of Labor Standards Enforcement has a sample form that is presumed to meet the requirements of California Labor Code Section 1102.8(a).

A thorough policy will notify employees which individuals are protected, what conduct is protected, and provide instructions on how to report possible violations of law to appropriate authorities. To meet the DTSA requirements, the applicable policy might include language as follows:

In the course of reporting any suspected unlawful conduct to any governmental agency or governmental entity, employees may disclose trade secret information to a government official or to an attorney, and they may use it in certain court proceedings without fear of prosecution or liability provided they do so consistent with 18 U.S.C. 1833.

As with option number 1 above, this language has not been tested in court. An employee might argue that it is not sufficient because it does not provide notification of the immunity by quoting the statute word for word. If you wish to eliminate all risk, you should attach a copy of the entire DTSA immunity provision to the policy.

What Contracts Or Agreements Are Covered By The Statute?

The DTSA states that “any contract or agreement amended or entered into after the date of the DTSA’s enactment with an employee that governs the use of a trade secret or other confidential information” shall provide notice of the immunity provisions set forth in the statute. The phrase “any contract or agreement” is obviously quite broad.

In addition to employment agreements and nondisclosure agreements, it apparently includes separation agreements, confidentiality stipulations (entered in lieu of protective orders in court), compensation agreements, and other routine form agreements that employers may present to employees. This raises a question that will be answered through litigation in the years to come: what happens if an employer presents multiple agreements to an employee, some of which comply with the immunity notification requirements, and some of which do not?

For example, suppose an employer presents to an employee at the inception of employment a nondisclosure agreement that contains sufficient notification of the DTSA immunity provisions. Additionally, suppose the employer presents to the same employee upon termination of employment a separation agreement that contains confidentiality language but lacks sufficient notification of the DTSA immunity provisions. Does the failure to include sufficient language in the latter agreement preclude the employer from availing itself of the remedies provided in the DTSA? Employees will surely argue that it does.

To address this situation, employers should catalog their agreements with employees and ensure that appropriate language is included in all of their agreements going forward. This includes any agreement containing confidentiality language, such as employment agreements, restrictive covenants, nondisclosure agreements, compensation agreements, employment applications that contain contractual language, separation agreements, bring-your-own-device (BYOD) agreements that contain confidentiality language, and other similar documents.

Conclusion

In sum, the immunity notification requirements of the DTSA are less than straightforward. If employers intend to avail themselves of the new federal cause of action, they should carefully analyze their agreements and policies to ensure compliance. You should work with counsel to review your existing contracts and policies to ensure you meet the requirements of the DTSA. Doing so will enhance your ability to avail yourself of the protections and remedies set forth in this new federal statute.

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