

New Federal “Defend Trade Secrets Act” Calls for Changes to Employment Agreements

Until President Obama signed the Defend Trade Secrets Act (DTSA) on May 11, 2016, trade secret law was governed by the laws of the individual states. Most trade secret cases were litigated in the state courts.

The new law changes that – many trade secret cases will now be filed in federal court. However, unlike patents and copyrights, federal trade secret law will stand alongside, and not preempt, state trade secret law. Individual state trade secret laws survive the enactment of the DTSA, creating a two-tier regime of trade secret protection that is likely to complicate, not simplify, the law of trade secrets. Over time, a body of federal trade secret law will evolve. The extent to which it will differ from state law, providing substantive and procedural advantages to plaintiffs (who will get to choose whether they file their cases in federal or state court) will take years to become clear.

The Whistleblower Provision

However, one component of this important law is clear right now: companies should modify their employment agreements to

comply with the “whistleblower” disclosure provision.

Somewhat incongruously, the DTSA includes a provision immunizing whistleblowers from liability for the disclosure of trade secrets when the disclosures are made to government or court officials in confidence. And, the DTSA requires that

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employers inform employees of this provision in the law. 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.” The term “employee” is defined to include contractors and consultants.

The penalty for failing to provide notice may be significant: if the employer later sues the employee for misappropriation the employer may not be able to recover double damages or attorney’s fees. Double damages and attorney’s fees can be a huge factor in a trade secret suit, and foregoing the ability to pursue them is far from trivial.

To take advantage of the DTSA’s double damages/attorney’s fees provision employers must implement the whistleblower

immunity provision in all employment agreements entered into after May 11, 2016, but the details of how to do this are not entirely clear. Exactly what qualifies as “notice” is not explained, and including the full language of the DTSA immunity section in agreements could be awkward. At this time, we recommend that employers attach a copy of the immunity provision to all employment agreements that include a trade secret or confidentiality provision. These provisions are standard in most employment agreements, and therefore employment agreements should be modified to reference the statutory attachment. If you prefer not to do this, you should contact us to discuss appropriate language to include in the body of agreements.

As an alternative, the DTSA also allows employers to provide a “cross-reference to a policy document . . . that sets forth the employer’s reporting policy for a suspected violation of law” (i.e., the subject of the whistleblower’s complaint), but many smaller companies may not even have such a policy document. We recommend employers keep it simple and avoid this more complicated (and vague) form of disclosure, in favor of attaching a hard copy of the relevant statutory provision to the specific agreement.

This advisory is for information purposes only, and does not constitute legal advice. Gesmer Updegrave has a team of attorneys who are prepared to help you address trade secrets concerns and prepare an appropriate employment agreement. Please contact Lee Gesmer at lee.gesmer@gesmer.com or Bill Hilton at bill.hilton@gesmer.com, or call them at 617 350-6800 if you have additional questions.

Seizure Orders

Another important provision of the DTSA provides that a court may issue an order providing for the seizure of property necessary to prevent the propagation or dissemination of a trade secret. Such an order would be issued on the request of one party without notice to the other. Although the DTSA states that such orders shall be made only in extraordinary circumstances (and the DTSA provides eight requirements for such extraordinary circumstances), companies may want to develop procedures regarding actions to be taken if it is discovered that a trade secret has been stolen. Clearly, it will benefit the trade secret owner to have in place a set of procedures that will allow it to take advantage of the new *ex parte* rules.

Defensively, it may be prudent to develop a response strategy in the event that a company is in receipt of such an *ex parte* order for the seizure of property. If a seizure order is issued, the DTSA provides that a date for a hearing must be set to occur within seven days of the issuance of the seizure order. Employers should be prepared to respond to such an order immediately (particularly if employees are hired from competing companies), and should be prepared to defend themselves within a week of issuance of such an order.

