

Employers Take Notice: Practical Implications of the Defend Trade Secrets Act

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On May 11, 2016, President Obama signed the Defend Trade Secrets Act (“**DTSA**”) into law, providing employers with a private federal cause of action for trade secret misappropriation claims. Recognizing that trade secrets “make up an increasingly important part of American companies’ intellectual property portfolios,” Congress enacted the DTSA to bring trade secret protections in line with those afforded to other forms of intellectual property such as patents, copyrights, and trademarks.¹ In addition to providing plaintiffs with access to the federal judiciary’s expertise in navigating complex intellectual property disputes, proponents of the DTSA assert that it will provide trade secret law with better predictability and uniformity, enabling employers to more easily enforce and protect their rights in disputes which often cross state lines. While it remains to be seen how DTSA jurisprudence will develop, the DTSA may very well provide employers with a powerful new weapon to protect confidential information.

Employers, however, must proactively take steps now to ensure they have unimpeded access to this new cause of action should the occasion arise. To preserve rights under the DTSA, all employers must provide a notice of immunity in “any contract or agreement with an employee² that governs the use of a trade secret or other confidential information”³ or alternatively, cross-reference a policy, which contains a notice of immunity, in the relevant contract or agreement.⁴ A notice of immunity advises an employee of the employee’s immunity from civil or criminal liability should the employee disclose trade secrets in the course of reporting or filing a lawsuit related to a suspected violation of law and must include the following verbatim language:

Employee⁵ is hereby notified in accordance with the Defend Trade Secrets Act of 2016 that Employee will not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that is made in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney solely for the purpose of reporting or investigating a suspected violation of law, or is made in a complaint or other document that is filed under seal in a lawsuit or other proceeding. If Employee files a lawsuit for retaliation against the Company for reporting a suspected violation of law, Employee may disclose the Company’s trade secrets to the Employee’s attorney and use the trade secret information in the court proceeding if the Employee files any document containing the trade secret under seal, and does not disclose the trade secret, except pursuant to court order.⁶

As a practical matter, a notice of immunity must be provided in *any document* that imposes confidentiality obligations upon an employee, independent contractor, or consultant or otherwise incorporates such provisions by reference. Thus, a notice of immunity must be included in a wide range of employment documents including but not limited to employee handbooks, severance agreements, employment contracts, non-disclosure/confidentiality agreements, consulting agreements, and invention assignment agreements. Employers who fail to provide the requisite

notice of immunity cannot recover punitive damages or attorneys' fees otherwise available under the DTSA.

Significantly, a notice of immunity need only be provided in agreements or contracts entered into or updated *after* May 11, 2016. Thus, employers need not amend agreements or contracts which predate May 11, 2016. However, to the extent any agreements or contracts containing or referencing confidentiality provisions are subsequently amended, a notice of immunity must be provided to preserve all rights available under the DTSA.

For questions about the Defend Trade Secrets Act, please contact a member of Haynes Boone's [Trade Secret Practice Group](#).

¹ S. Rept. 114-220, at 1-3 (2016).

² The DTSA defines the term "employee" broadly to include "any individual performing work as a contractor or consultant for an employer." 18 U.S.C. § 1833(b)(4).

³ 18 U.S.C. § 1833(b)(3)(A).

⁴ 18 U.S.C. § 1833(b)(3)(B).

⁵ To the extent the agreement or contract pertains to a consultant or independent contractor, the applicable term should be substituted anywhere the word "Employee" appears.

⁶ See 18 U.S.C. § 1833(b)(1)&(2).