Cooley

New Employee and Independent Contractor Notice Requirements Under the Federal Defend Trade Secrets Act

May 17, 2016

As we reported in our previous **Cooley alert**, President Obama has signed into law the federal Defend Trade Secrets Act (DTSA), which now can be used to pursue the misappropriation of a trade secret that occurs on or after the May 11, 2016.

In addition to substantive and procedural provisions designed to provide more robust trade secret protection, the DTSA included immunity protection for whistleblowers who report a suspected trade secret theft to government officials or their own attorneys. To preclude retaliation through a criminal or civil proceeding brought against such purported whistleblowers, the DTSA provides that an individual shall not be held criminally or civilly liable under federal or state trade secret law for the disclosure of a trade secret that is made either: (1) in confidence to a federal, state or local government official, either directly or indirectly, or to an attorney, and solely for the purpose of reporting or investigating a suspected violation of law or (2) in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.

Just as importantly, the DTSA requires that an employer must provide *notice* of this immunity in any contract or agreement with an employee, consultant or independent contractor that governs the use of a trade secret or other confidential information. Alternatively, the employer can 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. Although not explicitly stated in the statute, this reporting policy presumably would require the same notice of immunity as would be required in an employment or contractor agreement.

Under the DTSA, an employer that fails to provide the required notice cannot recover against an employee or contractor that did not receive this notice: (1) the exemplary damages available under the DTSA (which can double the damages awarded) or (2) any of its own attorneys' fees or costs (which can be awarded when the trade secrets are willfully and maliciously misappropriated). The DTSA is silent as to whether there are any other consequences for an employer that fails to provide the required notice.

The DTSA provides that this notice requirement applies to contracts and agreements that are entered into or updated *after* the DTSA's enactment. What remains unclear is how a court would handle these issues in a trade secret case in which the misappropriation occurs *after* enactment of the DTSA but the nondisclosure agreement which forms the basis of the claim was entered into *before* the DTSA was enacted, and therefore does not include the required notice provisions.

At a minimum, employers are strongly advised to include the required notice in any nondisclosure agreements with employees or independent contractors going forward. Employers also may want to look for opportunities to update their existing employment and contractor agreements to include this notice language. Sample notice language to be included in nondisclosure provisions, which would need to be adapted for use in specific agreements, could be as follows:

Notwithstanding the foregoing nondisclosure obligations, pursuant to 18 USC Section 1833(b), [Employee/Contractor] shall 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: (1) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney, and solely for the purpose of reporting or investigating a suspected violation of law; or (2) in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.

Key Contacts

Adam Gershenson Boston	agershenson@cooley.com +1 617 937 2379