Consider Whether to Update Your Confidentiality and Employment Agreements to Benefit from Remedies Available under the New Federal "Defend Trade Secrets Act"

On May 11, 2016, President Obama signed into law the "Defend Trade Secrets Act" ("DTSA"), which allows more robust trade secret protection by giving companies and individuals the right to bring a private civil cause of action for misappropriation of trade secrets in federal courts. The DTSA also provides new tools that victims of trade secret theft may pursue in federal court against individuals or companies that misappropriate or steal trade secrets. These new tools include the possibility of obtaining an *ex parte* seizure remedy that allows a court to seize property when "necessary to prevent the propagation or dissemination of the trade secret that is the subject of the action," in extraordinary circumstances and without giving advance notice to the party that stole the trade secret information. Another highly touted, but controversial, aspect of the statute is the "notice of immunity" provision described below. But whether an employer should include such a notice of immunity in its agreements requires careful consideration of a number of factors as discussed below. ***Employee-Whistleblower Immunity*** The DTSA provides immunity to individuals who disclose a trade secret (1) in confidence to a government official or to an attorney, solely for the purpose of reporting or investigating a suspected violation of law, or (2) in a filing made under seal in a lawsuit or other proceeding. Additionally, if an individual files a lawsuit alleging retaliation by his or her employer for reporting a suspected violation of law, such individual may disclose a trade secret to his or her attorney and, subject to certain limitations, use the trade secret information in court proceedings without liability. ***Employer Notice of Immunity*** **Employers (regardless of size) are required to give notice of this immunity in any contract or agreement with an employee, independent contractor or consultant that governs the use of a trade secret or other confidential information which is entered into or updated after May 11, 2016, if the employer wants to be able to recover punitive damages (up to twice the actual damages) or attorneys' fees under the DTSA**. Employers may copy the language of the immunity straight from Section 1833(b) of the DTSA or may draft language summarizing this portion of the statute to insert into their agreements. Alternatively, the immunity notice may cross-reference an employee handbook or policy that contains the immunity notice in employee procedures for reporting a suspected violation of law. The DTSA's notice of immunity language is set forth below: "Immunity from Liability for Confidential Disclosure of a Trade Secret to the Government or in a Court Filing:

- Immunity—An individual shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that—(A) is made—(i) in confidence to a federal, state or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.
- Use of Trade Secret Information in Anti-Retaliation Lawsuit-An individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual- (A) files any document containing the trade secret under seal; and (B) does not disclose the trade secret, except pursuant to court order."

Should an Employer Include the Notice of Immunity in New or Revised Confidentiality or

Employment Agreements? While many legal commentators are advising employers to immediately update their confidentiality and employment agreements to include this immunity notice or are suggesting that such updating is required by law, we recommend that employers undertake a careful cost-benefit analysis before deciding whether to include the notice of immunity in new confidentiality or employment agreements and before deciding if they need to incur the expense and inconvenience of updating existing agreements. Also, an employer's decision to update existing agreements with current employees to add the immunity notice may raise issues about whether certain pre-existing provisions in the agreements, such as non-competition provisions and other restrictive covenants, will continue to be enforceable after the agreement is amended. The answer to those issues will depend on the particular states in which the employer and its employees are located and the particular factual circumstances involved. The consequences of not including the immunity notice, however, could be significant. If an employer does not include the notice in new or revised agreements, it will not be able to recover punitive damages or attorneys' fees under the DTSA for any DTSA claims it asserts in any action filed against an employee to whom the notice was not given. Nevertheless, all remedies under state law will remain available to employers who have not provided the immunity notice, and those remedies may be substantially similar to remedies available under the DTSA. For example, the Kansas Uniform Trade Secrets Act allows for injunctive relief, actual damages and, in cases of willful and malicious misappropriation, an award of punitive damages up to twice the amount of the actual damages, as well as an award of reasonable attorney's fees. The Missouri Uniform Trade Secrets Act allows for injunctive relief, actual damages and, where misappropriation is outrageous, an award of punitive damages. Moreover, there may be a contractual right contained in the confidentiality or employment agreements the employer has entered into with its employees, independent contractors or consultants that allows the employer to recover reasonable attorneys' fees. Finally, by providing the notice of immunity, an employer might increase the chances that an employee would disclose a trade secret to a government agency or in a court proceeding. Therefore, to determine whether including the notice of immunity is appropriate, each employer needs to consider and weigh many factors, including but not limited to those discussed above. If you would like assistance in determining whether it makes sense for your business to revise, update or create new confidentiality or employment agreements, or if you would like a legal review of your existing confidentiality or employment agreements, including any non-solicitation or non-competition agreements, that you may have entered into with your employees, contractors or consultants, please contact your Seigfreid Bingham attorney to discuss this and other recent legal developments in this area of the law. *This article is intended to provide general recommendations and is not intended to be legal advice. You should always consult your attorney for advice unique to you and your business.*