Client Advisory

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Trade Secrets, Employees and Whistleblowers: Important Provisions in the New Defend Trade Secrets Act

Does your company have trade secrets it must consistently protect? Does the company worry about theft of those trade secrets by current or former employees, consultants or contractors? If so, you need to understand some important provisions in the recently enacted Defend Trade Secrets Act of 2016.

As we noted in our initial advisory dated May 13, 2016, the Defend Trade Secrets Act ("DTSA" or the "Act") provides a federal cause of action to claimants seeking to protect sensitive information from unscrupulous competitors and former employees.[1] The DTSA improved a company's ability to pursue "misappropriated trade secrets" in two important ways. First, the Act creates original jurisdiction in the federal courts for claims of misappropriation of trade secrets that relate to a product or service used in interstate commerce (as many do), and, significantly, provides for meaningful penalties of double damages and attorney's fees for willful and malicious misappropriation. Second, the DTSA provides owners of trade secrets with a mechanism to seize property to prevent propagation or dissemination of the trade secret in certain circumstances. However, there is a slight catch. The Act also grants immunity to whistleblowers who disclose a trade secret to the government in the course of reporting misconduct and affirmatively imposes a duty on employers to advise employees, contractors and consultants of these protections. It is this particular provision concerning the requirement of notice to potential whistleblowers that is the focus of this supplemental advisory.

The DTSA includes several sections designed to protect a whistleblower from retaliation claims styled as claims seeking to protect trade secrets. The main provision explicitly provides that an individual "shall not be held criminally or civilly liable under any Federal or State trade secret law" for disclosing a trade secret if that disclosure was: (a) to a government official or an attorney solely for the purpose of reporting or investigating a suspected violation of law or (b) was made in a complaint or other document filed in a lawsuit or other proceeding under seal.[2] The Act also allows a prevailing defendant to recover attorney's fees if a misappropriation claim is brought against him or her in bad faith.[3] Finally, the Act requires affirmative action on the part of an employer. Specifically, the Act states that notice of this whistleblower immunity must be

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[1] "Highlights of the Defend Trade Secrets Act of 2016," *Client Advisory*, May 13, 2016

[2] Sec. 7(b)(1)-(2)

[3] Sec. 2(b)(3)(D)

provided in any contract that governs the use of a trade secret or other confidential information. If such notice is not provided, then the prosecuting plaintiff forfeits the right to seek double damages and attorney's fees, two substantive remedies that otherwise would be available to the owner of the trade secret (e.g. the company).[4]

The Act's language requiring notice of immunity is broad. In order to obtain the benefits of the DTSA, notice of the whistleblower protections must be provided in any contracts that govern the use of confidential information. This provision pertains not only to a company's employees, but also to any contractors or consultants whose contracts contain confidentiality provisions. Moreover, this requirement under the DTSA applies not just to employment contracts, but to nondisclosure agreements, stand-alone confidentiality agreements, or contracts used to retain independent contractors or consultants. Finally, this provision applies to contracts entered into or "updated" after May 11, 2016.

Given this new provision, clients may want to consider including an appropriate notice clause when drafting or updating relevant contracts.

Carter Ledyard has developed whistleblower notice language that can be modified to reflect the individual circumstances of particular agreements. For more information concerning the matters discussed in this publication, please contact the authors, **Jeffrey S. Boxer** (212-238-8626, boxer@clm.com), **John M. Griem, Jr.** (212-238-8659, griem@clm.com), **Alexander G. Malyshev** (212-238-8618, malyshev@clm.com), or **Julie A. Weisman** (212-238-8648, jweisman@clm.com) or your regular Carter Ledyard attorney.

[4] Sec. 7(b)(3)