

Employee Notice Provision of Defend Trade Secrets Act – Immediate Action Needed

New law requires employers to give notice of immunity rights in order to recover enhanced damages.

President Obama signed the Defend Trade Secrets Act (DTSA) into law on May 11, 2016. Certain relief available to companies under the DTSA is contingent upon providing notice to employees of immunity rights in employee contracts or policies. This *Client Alert* explains the notice requirement, which could be overlooked, and proposes language to consider when revising employee contracts, agreements and company policies.

Background and Relief Available

The DTSA provides a federal cause of action for the misappropriation of trade secrets.¹ If a party is able to establish trade secret theft, it may be entitled to seize “property necessary to prevent the propagation or dissemination of the trade secret.”² In addition to seizures, courts may order other types of relief, including:

- Granting an injunction
- Awarding monetary damages, including damages for the actual loss suffered by the theft and damages for any unjust enrichment the misappropriating party receives from the theft
- Awarding “exemplary damages” up to two times the amount of the actual and unjust enrichment damages, if the theft was willful and malicious
- Requiring the losing party to pay the prevailing party’s attorney’s fees³

However, the relief available to a company under the DTSA depends on whether the misappropriating employee had notice of certain DTSA provisions. For a more complete discussion of the DTSA, please see the recent Latham *Client Alerts* [Defend Trade Secrets Act Passes Congress](#) and [5 Things to Know About the Defend Trade Secrets Act](#). If an employer does not provide the notice, they cannot collect the exemplary damages or attorney’s fees.

Required Notice to Employees

If employers wish to be eligible to recover exemplary damages (up to double damages) and attorney’s fees for misappropriated trade secrets, they must provide notice of the employee immunity provisions in the DTSA in any new agreement governing trade secrets or other confidential information.⁴ The immunity provisions allow employees to avoid criminal and civil liability for the disclosure of a trade secret to a governmental official or to an attorney “solely for the purpose of reporting or investigating a suspected violation of law” or for use in an anti-retaliation lawsuit.⁵ To comply with the notice requirement, an employer may either incorporate the immunity provisions in the contract or agreement itself, or include in such agreement a cross-reference to the employer’s whistle-blower policy containing the requisite immunity provisions.⁶ The notice provision applies to contractors and consultants, not merely employees,

so those agreements should also be considered. If the employer prefers, the disclosure can be inserted into a policy document, and employees should then be alerted to the revision. The notice provision applies to all agreements that are entered into or updated after the date the law is enacted.⁷

Language From the DTSA to Include in Company Agreements and/or Policies

The below paragraph adopts the immunity language from the statute:

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 is made in confidence to a Federal, State, or local government official or to an attorney solely for the purpose of reporting or investigating a suspected violation of law. 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 is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. 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 files any document containing the trade secret under seal; and does not disclose the trade secret, except pursuant to court order.

Prior to implementing changes, clients should consult with counsel about whether and how to modify employee agreements or circulate new policies.

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Endnotes

¹ The Defend Trade Secrets Act, S. 1890, 114th Cong. § 2(b)(1) (2016).

² *Id.* at § 2(b)(2).

³ *Id.* at §§ 2(b)(3)(A-D).

⁴ *Id.* at § 7(b)(3)(C).

⁵ *Id.* at § 7(b)(1)(A)(ii).

⁶ *Id.* at § 7(b)(3)(B).

⁷ *Id.* at § 7(b)(3)(D).