



New Federal "Defend Trade Secrets Act" Brings Need to Adjust Employment Contracts, Policies and Handbooks

May 18, 2016

Trade secret theft, much of it cyber-theft, annually costs American businesses roughly \$320 billion, the value of all U.S. exports to Asia each year.¹ The "Defend Trade Secrets Act" (DTSA) became effective on Thursday, May 12, 2016. Adding to criminal sanctions in the Economic Espionage Act, this new federal law creates a private cause of action against trade secret thieves, both foreign and domestic.

Our Intellectual Property department has provided a detailed alert on the protections and enforcement rights afforded by this new law, which may include injunctive relief, ex parte seizure and quarantine of property by law enforcement, actual losses, unjust enrichment damages and royalties. Double damages and attorney fees are available for willful and malicious theft. Existing remedies under state trade secret laws are left intact. See <http://www.lathropgpm.com/newsletter-169.html>.

About 77% of state trade secret suits over the last two decades have been brought against employees.² A company cannot obtain double damages and attorney fees from its employees, consultants and contractors under the DTSA unless it has given them notice of their rights as whistleblowers when trade secrets are involved.

Although the DTSA does not give precise wording for the notice and there may be some question whether the last sentence is necessary, here is a sample notice of immunity based on 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 (1) 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, or (2) 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.

See 18 U.S.C §1833 (as amended).

A company can insert such language in its employment and contractor agreements, or refer in the contract to such language in a separate policy or handbook. The notice requirement is prospective, meaning it applies only to those contracts made after the DTSA went into effect.

Key Takeaway: Companies have a new federal weapon to protect their trade secrets, but specific notice to employees, contractors and consultants is required to gain the full benefit of the new law.

If you have questions, please contact your Lathrop Gage attorney or the attorney listed above.

[1] See *The IP Commission Report* at 11, The Commission on the Theft of American Intellectual Property, The National Bureau of Asian Research (May 2013).

[2] See Almeling et al, "A Statistical Analysis of Trade Secret Litigation in State Courts," 46 *Gonzaga L. Rev.* 57 (2011)