

Advising Clients on Trade Secret Theft Immunity for Employees under the Defend Trade Secrets Act

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President Barack Obama signed the Defend Trade Secrets Act (DTSA) into law in May of 2016, creating the first U.S. federal system of trade secret law. Under the DTSA, a private party can bring a civil cause of action in federal court for the theft and misappropriation of its trade secrets.

A key provision of the DTSA grants immunity to whistle-blower employees (which includes independent contractors and consultants) for disclosure of a trade secret if the disclosure is made either (i) in confidence to a government official or an attorney for the sole purpose of reporting a suspected violation of law, or (ii) in a sealed court filing. 18 U.S.C. § 1833(b)(1). Business owners need to be aware of this provision because it further requires that employers provide notice of the whistle-blower immunity “in any contract or agreement with an employee that governs the use of a trade secret or other confidential information.” § 1833(b)(3). While an employer may bring a trade secret misappropriation action against an employee under the DTSA despite its failure to comply with the notice requirement, the employer may not seek exemplary double-damages or attorney fees, which may otherwise be available.

To ensure compliance with the notice provision, agreements between business entities should include warranties and representations from all parties that its employees, contractors, and consultants have been notified of the DTSA whistle-blower immunity provisions. For further protection, a business party to an agreement should seek indemnification for the other party failing to provide such notice.