



# The Defend Trade Secrets Act: What Employers Should Know Now





On May 11, 2016, President Barack Obama signed into law the Defend Trade Secrets Act of 2016 (“DTSA”), which Congress passed April 27, 2016.

**What does the passage of the DTSA mean for your company?**

In a nutshell, the DTSA “federalizes” trade secret law by creating a federal claim for trade secret misappropriation and creates new remedies, including an *ex parte* seizure order to recover misappropriated trade secrets. It also serves as a reminder that trade secrets can be highly valuable to your company and that you should ensure that your company has reasonable secrecy measures in place to protect them.

Nevertheless, the DTSA also imposes new obligations on employers. To take full advantage of the remedies provided under the DTSA, companies have an immediate obligation to provide certain disclosures in all non-disclosure agreements with employees, contractors, and consultants that are entered into or updated following the statute’s effective date.

This guide describes the DTSA’s unique legal structure and remedies. We also provide tips and strategies in light of the passage of the DTSA.

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**Additional Information**

Please visit our Trading Secrets Blog, [www.tradesecretslaw.com](http://www.tradesecretslaw.com), for further coverage of the DTSA. We regularly update our page featuring DTSA developments, including a [webinar](#) and podcast. We are happy to discuss what the DTSA may mean for your company.

For more information, please contact a member of the Trade Secrets, Computer Fraud & Non-Competes Practice Group: [www.seyfarth.com/TradeSecrets](http://www.seyfarth.com/TradeSecrets).

# A Brief History of the Defend Trade Secrets Act

“Unfortunately, all too often, some of our competitors, instead of competing with us fairly, are trying to steal these trade secrets from American companies. And that means a loss of American jobs, a loss of American markets, a loss of American leadership.”

–President Barack Obama

## The DTSA Timeline

- 1 July 29, 2015:** Sen. Orrin Hatch (R-UT), Sen. Christopher Coons (D-DE) and Rep. Doug Collins (R-GA) propose identical bills that later become Defend Trade Secrets Act of 2015.
- 2 December 2, 2015:** The Senate Judiciary Committee holds a hearing with speakers in favor of the new legislation. Similar legislation failed in 2014.
- 3 January 2016:** Amendments to the bill.
- 4 March 7, 2016:** Senate report on the bill.
- 5 April 4, 2016:** Senate passes the DTSA.
- 6 April 20, 2016:** House Judiciary Committee approves the Senate’s version of the DTSA.
- 7 May 11, 2016:** President Obama signs the DTSA into law.

## What Does the DTSA Provide?

The DTSA provides aggrieved parties with legal recourse in federal court via a federal trade secret cause of action (whereas, previously, relief was only available under the state UTSA or common law claims), as well as new remedies, including a seizure order. As a result, a party can now sue in federal court for trade secret misappropriation and seek actual damages, restitution, injunctive relief, *ex parte* seizure, exemplary damages, and attorney’s fees under the DTSA.

The DTSA piggybacks on a federal criminal statute, the Economic Espionage Act (“EEA”), to create a civil action in federal court for the misappropriation of trade secrets. Prior to enactment of the DTSA, civil trade secret claims were governed solely by state law, with 48 states adopting some version of the Uniform Trade Secrets Act (“UTSA”). New York and Massachusetts, the only two states that have yet to adopt a version of the UTSA, provide civil remedies under the common law for trade secret misappropriation.

In enacting the DTSA, Congress sought to achieve the following: 1) create a uniform standard for trade secret misappropriation by expanding the Economic Espionage Act to provide a federal civil remedy for trade secret misappropriation; 2) provide parties pathways to injunctive relief and monetary damages in federal court to prevent disclosure of trade secrets and account for economic harm to companies whose trade secrets are misappropriated; and 3) harmonize the differences in trade secret law under the UTSA and provide uniform discovery.

# Significant Aspects of the DTSA

## Definition

The term “trade secret” under the DTSA refers to the existing definition in the Economic Espionage Act (“EEA”): “all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if— (A) the owner thereof has taken reasonable measures to keep such information secret; and (B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, the public.”

## Application

The DTSA applies to any trade secret that is “related to a product or service used in, or intended for use in, interstate or foreign commerce.”

## Timeframe

The DTSA is not retroactively applicable; it prohibits only misappropriation occurring after its effective date.

## Immunity

An [immunity provision](#) exists to protect individuals from criminal or civil liability for disclosing a trade secret if it is made in confidence to a government official, directly or indirectly, or to an attorney, and it is made for the purpose of reporting a violation of law. Similarly, a related provision states that 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 as long as the individual files any document containing the trade secret under seal and does not disclose the trade secret, except pursuant to court order.

## Duty of Employers

The DTSA places an affirmative duty on employers to provide employees notice of the new immunity provision in “any contract or agreement with an employee that governs the use of a trade secret or other confidential information.”

An employer will be in compliance with the notice requirement if the employer provides a “cross-reference” to a policy given to the relevant employees that lays out the reporting policy for suspected violations of law. Should an employer not comply with the above, the employer may not recover exemplary damages or attorney fees in an action brought under the DTSA against an employee to whom no notice was ever provided. Curiously, the definition of “employee” is drafted broadly to include contractor and consultant work done by an individual for an employer. This notice provision applies to contracts and agreements entered into or updated after May 11, 2016, the date of enactment of the DTSA.

## Damages

The DTSA provides for actual **damages, restitution, injunctive relief**, significant exemplary relief (up to two times the award of actual damages), and attorney’s fees.

## Seizure Provision

The DTSA has an **ex parte seizure provision** that allows courts to seize misappropriated trade secrets without requiring the aggrieved party to provide notice to the alleged wrongdoer beforehand. As a measure to curtail the potential abuse of such seizures, the DTSA prohibits copying seized property and requires that *ex parte* orders provide specific instructions for federal Marshals performing the seizure, such as when the seizure can take place and whether force may be used to access locked areas. Moreover, a party seeking an *ex parte* order must be able to establish that other equitable remedies, such as a preliminary injunction, are inadequate.

## Statute of Limitations

The **statute of limitations** is three years. A civil action may not be commenced later than three years after the date on which the misappropriation is discovered or by the exercise of reasonable diligence should have been discovered.

## Penalties

The DTSA includes a “Trade Secret Theft Enforcement” provision, which increases the penalties for a criminal violation of 18 U.S.C. § 1832 from \$5,000,000 to the greater of \$5,000,000 or three times the value of the stolen trade secrets to the organization, including the costs of reproducing the trade secrets.

## Criminal Courts

The DTSA also contains a provision that allows trade secret owners to be heard in criminal court concerning the need to protect their trade secrets.

The DTSA further amends the Racketeer Influenced and Corrupt Organizations (“RICO”) statute to add a violation of the Economic Espionage Act as a predicate act.

## Injunctive Relief

The DTSA allows for certain limited employment restrictions, including injunctive relief, based on evidence of threatened

misappropriation, so long as such restrictions do not conflict with applicable state law. For example, an injunction may be available as long as it does not prevent a former employee from carrying out her career and entering into a new employment relationship, and the conditions are such that they are based on evidence of threatened misappropriation, not merely on information the person knows.

## Jurisdiction

Federal district courts have original jurisdiction over all civil actions brought under the statute.

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## Provisions Unique to the DTSA

The DTSA differs from the UTSA in several important aspects. Most notably, the DTSA opens the federal courts to plaintiffs in trade secrets cases. Before delving into the differences further, it bears noting that the UTSA regime is not preempted by the DTSA; in other words, UTSA claims will still be available to aggrieved parties. The DTSA also contains no language preempting other causes of action that may arise under the same common nucleus of facts of a trade secret claim. In contrast, in some states, courts have interpreted the UTSA as displacing other tort and common law claims.

As noted above, the DTSA also allows for an *ex parte* seizure order. A plaintiff fearful of the propagation or dissemination of its trade secrets would be able to take proactive steps to have the government seize misappropriated trade secrets prior to giving any notice of the lawsuit to the defendant. However, the *ex parte* seizure order is subject to important limitations that minimize interruption to the business

operations of third parties, protect seized property from disclosure, and set a hearing date as soon as practicable. The proposed seizure protection goes well beyond what a court is typically willing to order under existing state law. Of course, as referenced above, the *ex parte* seizures are limited and may only be instituted in “extraordinary circumstances.”

Unlike the UTSA, the DTSA also provides protection to “whistleblowers who disclose trade secrets to law enforcement in confidence for the purpose of reporting or investigating a suspected violation of law,” and the “confidential disclosure of a trade secret in a lawsuit, including an anti-retaliation proceeding.” It has a specific requirement requiring employers to provide notice of this immunity in non-disclosure agreements with employees, contractors, and consultants that are entered into or updated following the statute’s effective date.

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## Declaratory Relief and Other Litigation Considerations

One anticipated trend with the passage of the DTSA is a potential uptick in declaratory judgment actions in federal court. In defending oneself against a DTSA claim for trade secret misappropriation, a defendant may seek a declaratory judgment effectively finding that the information allegedly misappropriated is not a trade secret as defined by the DTSA. Thus, if a federal court judge determines that one’s “trade secret” is not a “trade secret” as defined under the EEA or the DTSA, one’s legal remedies could be severely diminished in the event of misappropriation.

Conversely, because of the requirement of unanimous jury verdicts in federal court, plaintiffs could decide that state court is a more favorable venue for asserting a DTSA claim. Plaintiffs may also prefer state court summary judgment procedures. Plaintiffs also must establish that the “trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce” to assert a DTSA claim in federal court. There are also typically tighter timelines and more aggressive eDiscovery obligations in federal court. Thus, even with passage of the DTSA, some litigants are still likely to seek relief in state court under state trade secrets law.

# A Comparison Between the Defend Trade Secrets Act and the Uniform Trade Secrets Act

	DTSA	vs.	UTSA
<b>Attorneys' Fees</b>	Bad faith claims, motion made or "resisted in bad faith," or willful and malicious misappropriation.		Bad faith claims, motion made or "resisted in bad faith," or willful and malicious misappropriation.
<b>Definition of "trade secret"</b>	<p><b>Similar:</b></p> <p>All forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if—</p> <p>(A) the owner thereof has taken reasonable measures to keep such information secret; and</p> <p>(B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, the public.</p>		<p><b>Similar:</b></p> <p>(A) Information, including a formula, pattern, compilation, program, device, method, technique, or process,</p> <p>(B) that derives independent economic value, actual or potential, from not being generally known to or readily ascertainable through appropriate means by other persons who might obtain economic value from its disclosure or use; and</p> <p>(C) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.</p>
<b>Definition of "misappropriation"</b>	<p><b>Identical:</b></p> <p>(A) Acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or</p> <p>(B) Disclosure or use of a trade secret of another without express or implied consent by a person who—</p> <ul style="list-style-type: none"> <li>(i) used improper means to acquire knowledge of the trade secret;</li> <li>(ii) at the time of disclosure or use, knew or had reason to know that the knowledge of the trade secret was <ul style="list-style-type: none"> <li>(I) derived from or through a person who had used improper means to acquire the trade secret;</li> <li>(II) acquired under circumstances giving rise to a duty to maintain the secrecy of the trade secret or limit the use of the trade secret; or</li> <li>(III) derived from or through a person who owed a duty to the person seeking relief to maintain the secrecy of the trade secret or limit the use of the trade secret; or</li> </ul> </li> <li>(iii) before a material change of the position of the person, knew or had reason to know that— <ul style="list-style-type: none"> <li>"(I) the trade secret was a trade secret; and</li> <li>"(II) knowledge of the trade secret had been acquired by accident or mistake.</li> </ul> </li> </ul>		<p><b>Identical:</b></p> <p>(A) Acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or</p> <p>(B) Disclosure or use of a trade secret of another without express or implied consent by a person who—</p> <ul style="list-style-type: none"> <li>(i) used improper means to acquire knowledge of the trade secret; or</li> <li>(ii) at the time of disclosure or use, knew or had reason to know that his knowledge of the trade secret was <ul style="list-style-type: none"> <li>(I) derived from or through a person who had utilized improper means to acquire it;</li> <li>(II) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or</li> <li>(III) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or</li> </ul> </li> <li>(iii) before a material change of his [or her] position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.</li> </ul>

	DTSA	vs.	UTSA
<b>Preemption language</b>	None		Preemption of state law and common law claims
<b>Ex Parte Seizure</b>	Application can be brought by a plaintiff without any notice to the adverse party, but subject to limitations.		Not authorized
<b>Injunctions</b>	Actual or threatened misappropriation may be enjoined provided order does not (I) prevent a person from entering into an employment relationship, and that conditions placed on such employment shall be based on evidence of threatened misappropriation and not merely on the information the person knows; or (II) otherwise conflict with an applicable State law prohibiting restraints on the practice of a lawful profession, trade, or business.		Actual or threatened misappropriation may be enjoined. In some jurisdictions, inevitable theory is recognized.
<b>Royalties</b>	In exceptional circumstances, an injunction may condition future use upon payment of a reasonable royalty for no longer than the period of time for which use could have been prohibited.		In exceptional circumstances, an injunction may condition future use upon payment of a reasonable royalty for no longer than the period of time for which use could have been prohibited.
<b>Compensatory Damages</b>	Damages for actual loss and for unjust enrichment or reasonable royalty for unauthorized use or disclosure.		Damages for actual loss and for unjust enrichment or reasonable royalty for unauthorized use or disclosure.
<b>Exemplary Damages</b>	Exemplary damages of two times actual damages permitted for willful or malicious misappropriation.		Exemplary damages of two times actual damages permitted for willful or malicious misappropriation.
<b>Statute of Limitations</b>	Three years		Three years
<b>Whistleblower Immunity Provisions</b>	Protects individuals from criminal or civil liability for disclosing a trade secret if (i) it is made in confidence to a government official or to an attorney for the purpose of reporting a violation of law or (ii) is disclosed to an attorney or used in court (subject to limitations) by an individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law; requires that employers include notice of such immunity in any agreement with an employee, contractor or consultant that governs the use of trade secret or confidential information.		None

# Next Steps: What Should An Employer or Business Do Now?

What is an employer or business to do if it wants to avail itself of this new law? What should employees now be apprised of? Here are some tips and strategies we believe will assist employers and business owners in complying with and taking full advantage of the relief available under the DTSA.

## 1 Review

Have qualified counsel review policies and relevant agreements to ensure that they contain language required under the DTSA, such as proper notice of the immunity provision referenced above. Additionally, ensure that your company is using non-disclosure agreements with your employees and that such agreements have clear, properly tailored definitions for trade secrets and confidential information, and appropriate exclusions to avoid scrutiny from government regulators.

## 2 Update

Starting immediately, employers must be sure that all non-disclosure agreements with employees, contractors, and consultants that are entered into or updated following the effective date of the DTSA contain disclosures of the DTSA's immunity provisions (either set forth directly in the agreement or in a policy that is cross-referenced in the agreement). These agreements include severance agreements, non-disclosure agreements, consultant agreements, etc. Employers who fail to provide these disclosures cannot recover exemplary damages or attorney fees in an action brought under the DTSA against an employee to whom no notice was provided. It is also good practice to include the required immunity language under the DTSA in your agreements and also have clear definitions of trade secrets and confidential information that are not overly broad given the government's enhanced scrutiny of overly broad confidentiality language, such as the NLRB, EEOC and SEC.



## 3 Ensure and Protect

*Do you have valuable information that could be protected as a trade secret?* Identify valuable sources of information in your organization. You should then check to see how your company protects such information. You will only be able to pursue trade secrets claims if you can show that your company employs reasonable secrecy measures to protect its trade secrets. Non-disclosure agreements are essential but courts will also scrutinize the other measures that a company uses to protect its valuable information.

Check out one of our recent [webinars](#) discussing best practices for the proper treatment of trade secret information. We have found that a [trade secret audit](#) with the assistance of counsel can be valuable for companies trying to identify and protect their trade secrets.

## 4 Prepare

To pursue and avoid DTSA claims against your company, maintain proper on-boarding and off-boarding procedures and counsel your employees regarding the handling and further protection of your company's confidential and trade secret information, including recurring employee training on confidentiality.

Also closely monitor relationships with vendors and contractors who may have access to your company's trade secrets and confidential information and ensure that there are appropriate protections in place.

**It is a brave new world with the passage of the DTSA. Federal courts will likely become the new forum for trade secret litigation. Make sure that your company is ready.**

## Frequently Asked Questions

### Q1: "What is the statute of limitations?"

**A:** Three years from the date of discovery of the misappropriation.

### Q2: "How does this differ from the Uniform Trade Secrets Act (UTSA)?"

**A:** The statute of limitations under the DTSA is the same as under the UTSA.

### Q3: "Do I need to obtain amended agreements from my existing employees?"

**A:** In most cases, no. The DTSA contains a whistleblower immunity provision that requires notice be given in any *new or updated* employment agreements that govern the use of a trade secret or other confidential information. This requirement puts the onus on employers to alter their contracts and agreements with employees, contractors, and consultants hired via contract or other agreement entered into after the effective date of the DTSA (May 11, 2016).

However, the statutory text does not impose this requirement retroactively on agreements entered into before the effective date of the DTSA. You may consider updating them as a matter of consistency and good policy.

### Q4: "What remedies does the DTSA provide?"

**A:** Actual damages, injunctive relief to prevent actual or threatened misappropriation, subject to certain limitations, and exemplary damages up to two times the amount of actual damages and attorneys' fees if misappropriation is willful or malicious.

### Q5: "Can I sue in federal court for a violation of DTSA?"

**A:** Yes. The DTSA provides a federal civil remedy for employers and businesses facing misappropriation of their trade secrets. However, a plaintiff could choose to assert such a claim in state court, subject to the defendant's right to remove the case to federal court based upon original jurisdiction.

### Q6: "Can I bring common law claims, UTSA, and DTSA claims in the same suit?"

**A:** Yes. You may bring state claims, like a UTSA claim, alongside a federal claim, like a DTSA claim, and common law claims in federal court. The common law claims may be subject to preemption under the UTSA. New case law will address the scope of any UTSA preemption.

### Q7: "What is an *ex parte* seizure order?"

**A:** It is a type of seizure order that does not require that a complainant give notice to the party against whom it seeks the seizure of trade secrets complainants before seeking relief. Under the DTSA, only property may be sought to be seized *ex parte*, and such orders will only be granted in the most extraordinary of circumstances.

### Q8: "Can I get my attorneys' fees?"

**A:** Yes, if the trade secret misappropriation was done maliciously or willfully, or if a motion made or "resisted in bad faith." A defendant can obtain attorneys' fees if a claim of misappropriation is made in bad faith.

**Q9:** “Can I bring a claim for threatened misappropriation?”

**A:** Yes, subject to certain exceptions.

**Q10:** “Can I bring a claim for inevitable disclosure?”

**A:** No.

**Q11:** “What is whistleblower immunity?”

**A:** The DTSA whistleblower immunity provision provides protections for individuals who disclose trade secrets under certain circumstances, such as the disclosure of trade secrets made in confidence solely for the purpose of reporting or investigating a suspected violation of the law to an attorney or a government official at the federal, state, or local level. The provision also protects trade secrets divulged in a complaint or other document filed under seal in connection with a lawsuit.

**Q12:** “What is the significance of the new RICO language?”

**A:** Misappropriation of a trade secret under the DTSA, as defined under Section b(5) of the EEA, constitutes a “predicate act” for purposes of determining actionable racketeering under RICO.

**Q13:** “Does the DTSA’s passage mean that state law does not matter?”

**A:** No. The UTSA is still an available cause of action in 48 states. State law also still plays a vital role in drafting non-disclosure and non-competition agreements.

**Q14:** “Is declaratory relief available in suits involving DTSA claims?”

**A:** Yes, potentially. A party may seek declaratory judgment finding that the information allegedly misappropriated is not a trade secret as defined by the DTSA. In effect, a federal court could ultimately decide whether one’s “trade secret” is or is not a “trade secret” for purposes of the DTSA.

**Q15:** “What are some additional considerations I should make in choosing between litigating in a state or federal court?”

**A:** One important consideration is the federal requirement of unanimous jury verdicts. As a result, plaintiffs could decide that state court is a more favorable venue for bringing a trade secret claim. Plaintiffs also must establish that the “trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce” to assert a DTSA claim: Thus, despite the passage of the DTSA, some litigants will still seek relief in state court under state trade secrets laws.

# Seyfarth's Trade Secrets, Computer Fraud & Non Competes Practice Group

The attorneys of the Trade Secrets, Computer Fraud & Non-Competes practice group of Seyfarth Shaw LLP protect and defend clients against those who improperly handle proprietary information, violate non-compete agreements, improperly solicit customers or remove electronic data from businesses, and raid employees. We also work aggressively to defend our clients against such allegations because we understand the potential damage that can occur when trade secret misappropriation, computer fraud, breach of contract, and business tort allegations arise. Although we counsel our clients to avoid these situations, should trouble arise, we aggressively appear in court for injunction and other proceedings with an experienced team of trial attorneys and eDiscovery practitioners.

For more information, please contact practice group co-chairs Michael Wexler at [mwexler@seyfarth.com](mailto:mwexler@seyfarth.com) or Robert B. Milligan at [rmilligan@seyfarth.com](mailto:rmilligan@seyfarth.com) or Daniel P. Hart at [dhart@seyfarth.com](mailto:dhart@seyfarth.com) or a member of Trade Secrets Practice Group by visiting [www.seyfarth.com/TradeSecrets](http://www.seyfarth.com/TradeSecrets).



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