

OUR INSIGHTS

Five Questions You Should Ask About the Defend Trade Secrets Act

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Published Date: June 21, 2016

1. What Is the DTSA and How Is It Different From the Uniform Trade Secrets Act?

Until recently, the Economic Espionage Act of 1996 (EEA) allowed for federal trade secret actions by the U.S. Department of Justice. The [Defend Trade Secrets Act of 2016 \(DTSA\)](#) amended the EEA to provide private litigants the right to sue (and be sued) in federal court for trade secret misappropriation. The DTSA establishes a three-year statute of limitation and provides several remedies for successful plaintiffs, including injunctive relief, compensatory damages, and attorneys' fees.

While fundamentally modeled on the Uniform Trade Secrets Act (UTSA), which has been adopted by 48 states, the DTSA is distinct from the UTSA in a number of ways.

- **The DTSA applies only to products or services in interstate or foreign commerce.** While the UTSA prohibits any person from misappropriating the trade secrets of another, the DTSA limits actions to “owners” of misappropriated trade secrets related to products or services used in, or intended for use in, interstate or foreign commerce. The statute does not define “owner,” and its definition is likely to be a hot-button standing issue in litigation in which the current ownership of the property is in dispute at the time the litigation arises. Standing issues may also arise where questions exist about whether the property moved through interstate commerce.
- **The DTSA does not require prediscovery trade secret identification.** Under California's version of the UTSA, a plaintiff must first identify disputed trade secrets with reasonable particularity before conducting discovery—a requirement that generally favors defending litigants. The DTSA does not have this requirement. Although it remains to be seen how courts will harmonize these distinctions, the absence of this requirement is likely to encourage litigants to pursue DTSA claims separately, rather than joining them with UTSA claims.
- **The DTSA allows ex parte civil seizure.** The DTSA allows for the court, on an ex parte basis, to authorize civil seizure of property necessary to prevent the propagation or dissemination of trade secrets (discussed in section two below). Civil seizure may be available under state law generally, but is not an explicit remedy for trade secret misappropriation under the UTSA. Access to this remedy, although subject to strict standards, again makes the DTSA an appealing alternative to the UTSA.

- **The DTSA includes explicit whistleblower immunity and notice requirements.** The DTSA includes new whistleblower “immunities” not found in the UTSA (but the immunities are preemptive, as discussed in detail below). While California’s version of the UTSA acknowledges that the UTSA is not intended to prevent whistleblowing activities, the DTSA takes that protection one step further by enacting explicit whistleblower immunities and by imposing a requirement that employers give employees notice of those immunities. This new feature could deter some litigants from filing under the DTSA. But litigants should understand that failure to comply with the notice requirements only limits plaintiffs’ rights to recover “extraordinary” remedies, namely exemplary damages and attorneys’ fees. It does not bar claims. Noncomplying litigants may also simply choose to supplement remedies with related non-DTSA claims (as explained immediately below).
- **The DTSA does not preempt tort claims.** Unlike the UTSA, the DTSA does not preempt related tort claims. The UTSA explicitly “displaces conflicting tort, restitutionary, and other law of this State providing civil remedies for misappropriation of a trade secret.” Although not all states have adopted this explicit preemption language, courts interpreting the UTSA have nonetheless recognized its preemptive effect on tort claims arising from the same nucleus of facts. The absence of explicit preemption under the DTSA further enhances the desirability of pursuing a claim under the DTSA rather than the UTSA.
- **Inevitable disclosure.** Finally, the DTSA appears to severely curtail, if not eliminate, the doctrine of “inevitable disclosure,” including based on the “threatened misappropriation” language of the UTSA (for those states that have adopted the doctrine). The inevitable disclosure doctrine allows an employer to use trade secret law to enjoin a former employee from working in a job that would inevitably result in the use of trade secrets. An injunction under the DTSA must be granted based on *evidence* of threatened misappropriation, and not merely on the information a person knows. Until courts can provide some interpretation to this language, potential plaintiffs who wish to use inevitable disclosure as a means of obtaining injunctive relief are better off filing under state law.

2. Should Employers Be Concerned About the Civil Seizure Requirements?

While potential plaintiffs view the civil seizure of property remedy as a new tool in the arsenal of weapons available to protect trade secrets, many employers are understandably concerned about the operation of these new provisions. The civil seizure procedures allow a litigant to request, *ex parte* (i.e., without the accused misappropriator receiving notice or having a chance to be heard), that alleged trade secrets be seized by the court and kept in court custody during the course of the litigation. Although this measure sounds extreme, the drafters of the DTSA devoted enormous time to setting forth specific standards that must be met before a court can exercise this power. The court must make specific findings in the seizure order indicating that the order is necessary to prevent dissemination of a trade secret, including that (1) a temporary restraining order or another form of equitable relief is inadequate, (2) an immediate and irreparable injury will occur if the seizure is not ordered, and (3) the person against whom seizure would be ordered has actual possession of the trade secret and any property to be seized. If a seizure order is issued, the *court* must take custody of and secure seized materials and hold a seizure hearing within seven days. An interested party may file a motion to encrypt seized material and a party harmed by a wrongful or excessive seizure may move to dissolve or modify the order and may

also seek relief against the party that applied for the seizure order.

Section six of the DTSA recognizes the concerns surrounding the civil seizure procedures and directs the Federal Judicial Center to develop, within two years, recommended “best practices” for courts’ seizure of information and media storing trade secret information, and for securing trade secret information and media once seized.

Before exercising the civil forfeiture option, employers should be aware that there are consequences for moving for an ex parte seizure without a material basis or evidence at the time of the seizure. This includes exposing the employer to wrongful seizure claims and damages.

3. Do the Whistleblower Immunities Apply to All Employers?

The short answer is “yes.” The DTSA’s immunity provisions are applicable against all employers and preempt both state and federal law. Section seven of the DTSA provides “employees” who disclose trade secrets to the government or in a court filing with criminal and civil immunity from liability under certain circumstances under both the DTSA and state law. “Employee” is defined broadly under the act and includes “any individual performing work as a contractor or consultant for an employer.” The DTSA specifically provides that employees may disclose trade secrets (1) in confidence, either directly or indirectly, 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.”

Individuals who file lawsuits alleging that they were retaliated against for reporting a suspected violation of law may also use and disclose related trade secrets in the following manner: (1) the individual may disclose the trade secret to his or her attorney, and (2) the individual may use the information in a court proceeding, as long as the individual files documents containing the trade secret under seal and does not otherwise disclose the trade secret “except pursuant to court order.”

We will have to see what, if any, impact the immunity provision has on trade secret litigation. But a material concern about such immunities arises in connection with what happens to an employer’s trade secrets that are disclosed to the government. In those cases, the employer loses control over protecting that information and has to rely on federal protections (i.e., the Freedom of Information Act), which can be limited at best. It presents a real problem without an immediate resolution.

4. How Can Employers Comply With the Notice Requirements?

Employers are required to provide employees with “notice of the immunity” described above “in any contract or agreement with an employee that governs the use of a trade secret or other confidential information.” This means that documents such as confidentiality, nondisclosure, code-of-conduct, and noncompete agreements, for example, should contain this notice. Notice in such contracts or agreements may also consist of a “cross-reference to a policy document provided to the employee that sets forth the employer’s reporting policy for a suspected violation of law.” The DTSA requires that an employer modify applicable policies and add a reference to the policy in relevant agreements (or attach an addendum to the relevant agreements referencing the policy). The notice requirement is limited to “contracts and agreements that are entered into or updated after the date of enactment of” the DTSA and does not affect acts that are “otherwise prohibited by law, such as the unlawful access of

material by unauthorized means” (e.g., the Computer Fraud and Abuse Act).

Employers that fail to comply with the notice requirement waive their rights to seek exemplary damages and attorneys’ fees in misappropriation of trade secrets actions under the act. Because failure to comply only limits these extraordinary remedies and does not bar claims, the practical implications of noncompliance are limited, although that could change as courts begin to construe the scope and meaning of the notice provision. For that reason, compliance is recommended wherever possible.

There are several options for complying with the notice requirements but the most conservative approach involves mirroring the language of the statute. While not required by the DTSA, employers may also want to review their agreements for compliance with the whistleblower notice requirements in *In re KBR, Inc.*

5. What Can Employers Do Now?

The DTSA provides employers with both an opportunity and an obligation to protect trade secrets and to review and update confidentiality agreements, policies, and practices.

- Employers should review and identify their companies’ trade secrets. This may involve reviewing current agreements that define confidential, proprietary information;
- Employers should reinforce policies preventing the acquisition of others’ trade secrets;
- Employers should understand applicable state UTSA law and how it varies from the DTSA;
- Employers should respond promptly to demand letters threatening ex parte proceedings—be prepared to argue the availability of alternative remedies (e.g., a temporary restraining order); consider whether an encryption request is necessary;
- Employers should be aware of the scope of the DTSA immunities; and
- Employers should update agreements and policies to incorporate notice of immunities.

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