

Eric E. Bensen on

Defend Trade Secrets Act

2016 Emerging Issues 7433

[Click here for more Emerging Issues Analyses related to this Area of Law.](#)

The Defend Trade Secrets Act (“DTSA”), enacted on and effective as of May 11, 2016,¹ creates for the first time a federal private cause of action for trade secret misappropriation.² Prior to the DTSA’s enactment, private causes of action for trade secret misappropriation were solely a matter of state law, which in a vast majority of states was based on the Uniform Trade Secret Act (“UTSA”). The DTSA, although not preempting state law, borrows heavily from the UTSA, so much so that the burden that a trade secret claimant must meet to establish the existence of a trade secret and act of misappropriation is under both acts identical.

The enactment to DTSA ushers in three notable changes to trade secret law. First, here its interstate commerce requirement is met, the DTSA confers original jurisdiction on federal courts to hear trade secret misappropriation claims.³ Second, unlike the UTSA, the DTSA provides for ex parte seizures of property when necessary to prevent the dissemination of a misappropriated trade secret.⁴ Third, the DTSA immunizes individuals from liability under federal and state law for certain confidential disclosures of trade secret information.⁵

The DTSA was enacted as amendments to what is commonly known as the Economic Espionage Act (“EEA”), which provides criminal penalties for trade secret misappropriation and a civil clause of action for trade secret misappropriation that can be brought by the federal government.⁶ Although enacted as part of the EEA, no doubt the DTSA and EEA will, as a practical matter, typically be thought of as separate statutes.

Discussion

Definitional Aspects of the DTSA. The key definitions of the DTSA are taken from the UTSA. Thus, like the UTSA, the DTSA places no definitional limit on the type of information that can at least potentially be protected as a trade secret.⁷ To qualify for trade secret protection, any purported

1 Defend Trade Secrets Act § 2(e).

2 [18 U.S.C. § 1833\(b\)\(1\)](#).

3 [18 U.S.C. § 1836\(c\)](#) (“JURISDICTION.—The district courts of the United States shall have original jurisdiction of civil actions brought under this section.”).

4 [18 U.S.C. § 1836\(b\)\(2\)](#).

5 [18 U.S.C. § 1833\(b\)](#).

6 [18 U.S.C. § 1831-1839](#). The DTSA left the EEA’s substantive provisions respecting criminal trade secret actions unchanged other than to change the maximum penalty levied against organizations for trade secret misappropriation from \$5,000,000 to the greater of \$5,000,000 or three times the value of the stolen trade secret. [18 U.S.C. § 1832\(b\)](#). The DTSA also amended the RICO statute to include criminal violations of the EEA as a predicate act. [18 U.S.C. § 1961\(1\)](#).

7 [18 U.S.C. § 1839\(3\)](#) (“[T]he term ‘trade secret’ means 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”); *cf.* UTSA § 1(4). For numerous

trade secret must (i) in fact be secret,⁸ (ii) derive actual or potential independent economic value from not being generally known to or readily ascertainable through proper means by another person who could obtain economic value from the disclosure or use of the information⁹ and (iii) have been consistently subject to efforts reasonable under the circumstances to protect its secrecy.¹⁰

“Misappropriation” includes the wrongful acquisition of a trade secret, *i.e.*, the acquisition of a trade secret by a person who knows or has reason to know that the acquisition was made by improper means,¹¹ and the wrongful use or disclosure of a trade secret, *i.e.*, use or disclosure by one who (i) used improper means to acquire the secret or (ii) knew or had reason to know that the secret was (a) derived from a person who used improper means to acquire it, (b) acquired it under circumstances giving rise to a duty to maintain its secrecy, or (c) derived from or through a person who owed a duty to the owner to maintain its secrecy.¹²

“Improper means” includes “theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.”¹³ However, in a departure from the UTSA that is nonetheless consistent with general trade secret practice, the DTSA expressly provides that reverse engineering, independent derivation and any other lawful means of acquisition are excluded from the definition of “improper means.”¹⁴

The DTSA speaks in terms of the “owner” of a trade secret,¹⁵ but the term “owner” is defined to include not only the legal owner, *i.e.*, the party with legal title to the trade secret, but also an equitable title holder and a licensee of the trade secret.¹⁶

Interstate Commerce Requirement. The DTSA provides standing to pursue a trade secret claim only where the trade secret is “related to a product or service used in, or intended for use in, interstate or foreign commerce.”¹⁷ No doubt that is a low threshold, but it can still be expected to be a substantial

examples of subject matter that has been granted or denied trade secret protection, see 1 ROGER M. MILGRIM & ERIC BENSON, MILGRIM ON TRADE SECRETS § 1.09 (Matthew Bender) (“MILGRIM ON TRADE SECRETS”).

8 The DTSA does not expressly require secrecy in the sense of stating that, “A trade secret must be secret ...,” but it is axiomatic that publicly available information cannot be claimed as a trade secret. For a discussion of the secrecy requirement for trade secret protection, see 1 MILGRIM ON TRADE SECRETS § 1.03.

9 18 U.S.C. § 1839(3)(B); *cf.* UTSA § 1(4)(i) (a trade secret must “derive[] independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use”). For a discussion of the UTSA’s “independent economic value” requirement, see 1 MILGRIM ON TRADE SECRETS § 1.01[2][c][iii][C].

10 18 U.S.C. § 1839(3)(A); *cf.* UTSA § 1(4)(ii). For a discussion of the “reasonable efforts” or “reasonable precautions” requirement for trade secret protection, see 1 MILGRIM ON TRADE SECRETS § 1.04.

11 18 U.S.C. § 1839(5)(A); *cf.* UTSA § 1(2)(i). For a discussion of misappropriation through wrongful acquisition, see 4 MILGRIM ON TRADE SECRETS § 15.01[d].

12 18 U.S.C. § 1839(5)(B); *cf.* UTSA § 1(2)(ii). For a discussion of misappropriation through wrongful use or disclosure, see 4 MILGRIM ON TRADE SECRETS § 15.01[d].

13 18 U.S.C. § 1839(6)(A); *cf.* UTSA § 1(1).

14 18 U.S.C. § 1839(6)(B). For a discussion of independent development, see 1A MILGRIM ON TRADE SECRETS § 7.01[1][a]. For a discussion of reverse engineering, see 4 MILGRIM ON TRADE SECRETS § 15.01[1][d][iv].

15 [18 U.S.C. § 1836](#)(b)(1) (“IN GENERAL.—An owner of a trade secret that is misappropriated may bring a civil action under this subsection if the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce.”).

16 [18 U.S.C. § 1839](#)(4). For a discussion of standing to sue for trade secret misappropriation and, in particular, whether a non-owner has such standing, see 4 MILGRIM ON TRADE SECRETS § 15.01[1].

17 [18 U.S.C. § 1836](#)(b)(1).

obstacle to DTSA standing for many trade secret claimants. This is so because many, perhaps even most, trade secret cases involve the misappropriation of confidential customer related information. Where the trade secret claimant is a local service business, e.g., a realtor, general contractor, local delivery service, etc., the claimant's customer information would be unlikely to be viewed as related to or used in "interstate commerce" under a reasonable interpretation of Congress's interstate commerce power. Perhaps the same logic would apply to customer information belonging to a local distributor of product sourced from another state because the transaction between the distributor and its customers would be solely an intrastate matter. However, given the often expansive construction that courts have given to Congress's constitutional authority to regulate interstate commerce, courts might not have trouble concluding that customer information in those cases "relates to" interstate commerce.

Civil Seizure Provisions. Unlike the UTSA, the DTSA provides for ex parte seizures of property when necessary to prevent the dissemination of a misappropriated trade secret. It appears that the seizure remedy was a driving force behind the adoption of the DTSA. However, while Congress was considering the bill, an amendment was added to ensure that ex parte seizures were available only in "extraordinary circumstances,"¹⁸ *i.e.*, where a defendant¹⁹ is expected to attempt to flee the country or planning to immediately disclose the trade secret to a third-party or where a defendant is otherwise not amenable to the enforcement of the court's orders.²⁰

The ex parte provision²¹ includes "numerous" limitations,²² although those limitations are not intended to curb equitable relief that is otherwise available under federal law.²³ Before a court can issue a seizure order, it must find the following based on "specific" facts.²⁴

1. Ineffectiveness of Other Injunctive Relief. Defendant would evade, avoid or otherwise not comply with an order under Federal Rule of Civil Procedure 65 or other form of equitable relief.²⁵
2. Irreparable Injury. The applicant would suffer an immediate and irreparable injury if the seizure order were not issued.²⁶
3. Balance of Equities. The harm to the applicant that would result from a denial of the order would outweigh the harm to the legitimate interests of defendant and substantially outweigh the harm to any third parties that would result were the order issued.²⁷

18 18 U.S.C. § 1836(b)(2)(A)(i) ("Based on an affidavit or verified complaint satisfying the requirements of this paragraph, the court may, upon ex parte application *but only in extraordinary circumstances*, issue an order providing for the seizure of property necessary to prevent the propagation or dissemination of the trade secret that is the subject of the action.") (emphasis added); S. Rep. No. 114-220, at 5 (2016).

19 The DTSA uses "the party to which the order would be issued," 18 U.S.C. § 1836(b)(2)(A)(ii), but here, "defendant" it is used for simplicity.

20 S. Rep. No. 114-220, at 6 (2016).

21 18 U.S.C. § 1836(b)(2).

22 S. Rep. No. 114-220, at 6 (2016).

23 S. Rep. No. 114-220, at 6 (2016).

24 18 U.S.C. § 1836(b)(2)(A)(ii).

25 18 U.S.C. § 1836(b)(2)(A)(ii)(I).

26 18 U.S.C. § 1836(b)(2)(A)(ii)(II).

27 18 U.S.C. § 1836(b)(2)(A)(ii)(III).

4. Likelihood of Success. The applicant is likely to succeed on the merits of its claim, *i.e.*, it is likely to succeed in showing that the information is a trade secret and that defendant misappropriated the trade secret or conspired to misappropriate the trade secret.²⁸
5. Actual Possession. Defendant has actual possession of the trade secret and any property to be seized.²⁹
6. Reasonable Particularity. To the extent reasonable under circumstances, the applicant has described the matter to be seized and the location of the matter to be seized with reasonable particularity.³⁰
7. Threat of Destruction/Inaccessibility. Defendant would destroy, move, hide, or otherwise make the matter to be seized inaccessible to the court were the applicant to proceed on notice to the applicant.³¹
8. No Publication. The applicant has not publicized the requested seizure.³²

The DTSA also sets forth numerous requirements for the seizure order itself. Most are fairly routine:³³ the order must (i) set forth the court's findings of fact and conclusions of law,³⁴ (ii) provide for the narrowest seizure of the property necessary to achieve the purpose of the order and to do so with minimal interruption of the business operations of third parties and the legitimate business interest of the defendant,³⁵ (iii) provide guidance to the law enforcement officials that will execute the order,³⁶ (iv) set a date for hearing at the earliest possible time³⁷ and (v) require the applicant to provide security for the payment of damages in the event that the seizure or attempt to seize was wrongful or excessive.³⁸

28 [18 U.S.C. § 1836\(b\)\(2\)\(A\)\(ii\)\(IV\)](#). In connection with one option available to an applicant, the statute actually states that the applicant must be likely to succeed in showing that defendant "misappropriated the trade secret of the applicant by improper means" There are, of course, no *proper* means to misappropriate a trade secret: "misappropriation" is defined to mean the acquisition of a trade secret by improper means. E.g., [18 U.S.C. § 1839\(5\)\(A\)](#) ("[T]he term 'misappropriation' means ... 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"). However, it appears the "improper means" language was included to protect third parties such as members of the press who may possess a misappropriated trade secret, but did not use or conspire to use improper means to acquire the secret. S. Rep. No. 114-220, at 6-7 (2016).

29 18 U.S.C. § 1836(b)(2)(A)(ii)(V). This requirement was added to protect third parties, such as an Internet service provider, from seizure. S. Rep. No. 114-220, at 6 (2016).

30 18 U.S.C. § 1836(b)(2)(A)(ii)(VI). For a discussion the requirement that a trade secret claimant describe its trade secret with particularity, see 4 MILGRIM ON TRADE SECRETS § 15.01[d][i].

31 18 U.S.C. § 1836(b)(2)(A)(ii)(VII). It is not clear what this requirement adds to the requirement that the court make a finding that defendant will evade, avoid or otherwise not comply with other forms of injunctive relief. It is a safe bet that a defendant that would evade, avoid or otherwise ignore an injunction would act no more cooperatively in response to a notice from plaintiff.

32 18 U.S.C. § 1836(b)(2)(A)(ii)(VIII). It appears that this provision is intended to protect a defendant from the publicity that may arise from a seizure order. *Cf.* 18 U.S.C. § 1836(b)(2)(C) ("PROTECTION FROM PUBLICITY.—The court shall take appropriate action to protect the person against whom an order under this paragraph is directed from publicity, by or at the behest of the person obtaining the order, about such order and any seizure under such order.").

33 What follows is a high-level summary of the required elements of a seizure order and related requirements. The DTSA itself should be consulted for the details of those requirements.

34 18 U.S.C. § 1836(b)(2)(B)(i).

35 18 U.S.C. § 1836(b)(2)(B)(ii).

36 18 U.S.C. § 1836(b)(2)(B)(iv).

37 18 U.S.C. § 1836(b)(2)(B)(v).

38 18 U.S.C. § 1836(b)(2)(B)(vi). Damages for wrongful seizure are provided for in 18 U.S.C. § 1836(b)(2)(G).

Less routine are the steps the court must take respecting confidentiality. The seizure order itself must be accompanied by an order prohibiting access to the seized materials by either the applicant or defendant and prohibiting any copy of the seized material.³⁹ Moreover, the court must take “appropriate action” to protect defendant from publicity about the order or any seizure by or at the behest of the applicant.⁴⁰ With respect to seized materials, the court shall take such materials into its possession and take appropriate measures to protect their confidentiality including taking steps to ensure that any electronic materials are stored in a manner that does not permit Internet access.⁴¹ Although a seizure order is to be executed by law enforcement officials, the court may allow a technical expert who is unaffiliated with the applicant and is bound by a court-approved nondisclosure agreement to participate in the seizure if the participation if the expert would aid in the execution of the order and minimize the burden of the seizure.⁴² Any party that claims to have an interest in the subject matter seized may make a motion to have electronic materials included in the seized material encrypted.⁴³

Remedies. The injunctive relief provisions of the DTSA are based on those in the UTSA.⁴⁴ Thus, as under the UTSA, a court may under the DTSA grant an injunction to prevent any “actual or threatened” misappropriation,⁴⁵ require affirmative actions to be taken to protect the trade secret,⁴⁶ and in “exceptional circumstances that render an injunction inequitable,” grant what is elsewhere referred to as a “royalty injunction,” *i.e.*, it may condition future use of the trade secret on payment of a reasonable royalty for a period of time no longer than the period of time for which use of the trade secret could be enjoined.⁴⁷

However, recognizing that laws respecting restraints on employee mobility vary from state to state and seeking to avoid conflict with those laws,⁴⁸ Congress included two provisions in the DTSA that limit injunctive relief in the employee context. First, an injunction that would prevent an individual from entering into an employment relationship must be based on evidence of threatened misappropriation and cannot be based merely on the information that the person possesses.⁴⁹ That is, the DTSA rejected the so-called “inevitable disclosure” doctrine—which had also been rejected in many states—under which a trade secret owner could be entitled to injunctive relief upon a showing that (i) a former employee was going to work for a direct actual or potential competitor, (ii) the employee’s new position or activity would be essentially the same as his prior position or activity such

39 18 U.S.C. § 1836(b)(2)(B)(iii).

40 18 U.S.C. § 1836(b)(2)(C).

41 18 U.S.C. § 1836(b)(2)(D). The court may appoint a special master to isolate the misappropriated trade secret information to facilitate the return of unrelated property and data to the person from whom the property was seized. 18 U.S.C. § 1836(b)(2)(D)(iv).

42 18 U.S.C. § 1836(b)(2)(E).

43 18 U.S.C. § 1836(b)(2)(H).

44 *Cf.* UTSA § 2.

45 18 U.S.C. § 1836(b)(3)(A)(i). Preliminary injunctive relief for trade secret misappropriation is discussed in 4 MILGRIM ON TRADE SECRETS § 14.01. Permanent injunctive relief for trade secret misappropriation is discussed in 4 MILGRIM ON TRADE SECRETS § 15.02[1].

46 18 U.S.C. § 1836(b)(3)(A)(ii). Steps that can be taken in litigation to preserve the secrecy of a trade secret are discussed in 4 MILGRIM ON TRADE SECRETS § 14.02.

47 18 U.S.C. § 1836(b)(3)(A)(iii). Royalty injunctions are discussed in 4 MILGRIM ON TRADE SECRETS § 15.02[q].

48 S. Rep. No. 114-220, at 8 (2016). State laws respecting the restraints that an employer is permitted to place on an employee’s post-employment activities are discussed in 1A MILGRIM ON TRADE SECRETS Ch. 4.

49 18 U.S.C. § 1836(b)(3)(A)(i)(I).

that the employee would "inevitably" use the owner's trade secret in the new position, and (iii) the trade secret at issue was advanced and potentially highly valuable to the second employer.⁵⁰ Second, and more broadly, the DTSA bars injunctive relief that would otherwise conflict with state law prohibiting restraints on the practice of a lawful profession, trade or business.⁵¹

Like the UTSA,⁵² the DTSA permits a successful claimant to recover damages for its actual loss caused by the misappropriation,⁵³ damages for unjust enrichment from the misappropriation to the extent that unjust enrichment damages are not taken into account in the computation of damages for actual loss⁵⁴ and in lieu of damages measured by other means, a reasonable royalty for defendant's unauthorized disclosure or use of the trade secret.⁵⁵

Also like the UTSA,⁵⁶ the DTSA permits an award of exemplary damages up to two times the amount awarded as compensatory damages in the case of willful and malicious misappropriation.⁵⁷ The DTSA also permits, as does the UTSA,⁵⁸ an award of attorneys' fees where a misappropriation claim is made in bad faith, a motion to terminate an injunction is made or opposed in bad faith or the misappropriation was shown to have been willful and malicious.⁵⁹ However, as discussed below, exemplary damages and attorneys' fees may be denied where an employer has failed to comply with the DTSA's immunized disclosure provisions.

Statute of Limitations. The statute of limitations for a claim under the DTSA is three years from the date on which the misappropriation was, or by the exercise of reasonable diligence should have been, discovered.⁶⁰ The DTSA provides that a continuing misappropriation constitutes a single claim of misappropriation,⁶¹ which is to say that the statute of limitations runs once from the time that the misappropriation was or should have been discovered, not again from each unauthorized use or disclosure of the secret.⁶²

50 Note that as the DTSA does not preempt state law (other than with respect to certain protections for immunized disclosures discussed *infra*), [18 U.S.C. § 1838](#), a state that had adopted the inevitable disclosure doctrine could still allow injunctive relief under that doctrine in connection with a misappropriation claim brought under state law. For a discussion of the inevitable disclosure theory, including a critique of its use in ordinary circumstances, see 1A MILGRIM ON TRADE SECRETS § 5.02[3][d].

51 [18 U.S.C. § 1836](#)(b)(3)(A)(i)(II).

52 *Cf.* UTSA § 3(a).

53 18 U.S.C. § 1836(b)(3)(B)(i)(I). Damages for trade secret misappropriation are discussed in 4 MILGRIM ON TRADE SECRETS § 15.02[3].

54 18 U.S.C. § 1836(b)(3)(B)(i)(II). Unjust enrichment for trade secret misappropriation is discussed in 4 MILGRIM ON TRADE SECRETS § 15.02[3][c].

55 18 U.S.C. § 1836(b)(3)(B)(i)(III). Reasonable royalties for trade secret misappropriation are discussed in 4 MILGRIM ON TRADE SECRETS § 15.02[3][e].

56 *Cf.* UTSA § 3(b).

57 18 U.S.C. § 1836(b)(3)(C). Exemplary damages for trade secret misappropriation are discussed in 4 MILGRIM ON TRADE SECRETS § 15.02[3][i].

58 *Cf.* UTSA § 4.

59 18 U.S.C. § 1836(b)(3)(D). Attorneys' fees for trade secret misappropriation are discussed in 4 MILGRIM ON TRADE SECRETS § 15.02[3][k].

60 18 U.S.C. § 1836(d).

61 18 U.S.C. § 1836(d).

62 For a discussion of the discovery rule, under which a claim for trade secret misappropriation arises only once for statute of limitations purposes, and the continuing tort approach, under which each unauthorized use or disclosure gives rise to a new claim for statute of limitations purposes, see 3 MILGRIM ON TRADE SECRETS § 13.04[2].

Preservation of Confidentiality & Immunized Disclosures. One of the risks inherent in any trade secret litigation is the possibility that the trade secret at issue will be disclosed in the records of the proceeding, which, as is the case with any federal litigation, are generally open to the public. Generally applicable federal (and state) laws include provisions that a trade secret claimant may avail itself of to guard against such disclosure.⁶³ The DTSA includes several provisions specific to the Act to protect the confidentiality of trade secrets that are the subject of a DTSA proceeding. For example, the DTSA prohibits a court from authorizing the disclosure of any information that the owner asserts is a trade secret unless the court first gives the party the opportunity to file a submission under seal supporting the information's trade secret status.⁶⁴ The DTSA further provides that information provided under seal cannot be used for any other purpose other than for the action in which it was submitted (unless required by law).⁶⁵ Lastly, the DTSA provides that the disclosure of information relating to a trade secret in a DTSA action shall not by itself constitute a waiver of trade secret protection for the information.⁶⁶

The DTSA also immunizes individuals from liability under federal and state law for certain confidential disclosures of trade secret information.⁶⁷ Three types of disclosure are protected:

1. a disclosure made in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney solely for the purpose of reporting or investigating the suspected violation of law;⁶⁸
2. a disclosure made in a complaint or other document filed under seal in a lawsuit or other proceeding;⁶⁹ and
3. a disclosure to an attorney or in a court proceeding by an individual who files a lawsuit for retaliation by an employer for the individual's reporting of a suspected violation of law as long as any court filings are made under seal and the individual does not otherwise disclose a trade secret except pursuant to a court order.⁷⁰

The DTSA's Notice Requirements. Interestingly, the DTSA requires that an employer shall provided notice of the DTSA's immunities from disclosure in any contract or agreement with an "employee," including traditional employees, independent contractors and consultants,⁷¹ that concerns the use of a trade secret or other confidential information.⁷² Alternatively, the employer can provide in a nondisclosure agreement a cross-reference to a policy document provided to employees in which the employer sets forth the employer's reporting policy for suspected violations of law.⁷³ This intrusion

63 For a discussion of such provisions and additional techniques that a trade secret claimant may utilize to protect its trade secret, see 4 MILGRIM ON TRADE SECRETS § 14.02.

64 [18 U.S.C. § 1835\(b\)](#).

65 18 U.S.C. § 1835(b).

66 18 U.S.C. § 1835(b).

67 [18 U.S.C. § 1833\(b\)](#).

68 18 U.S.C. § 1833(b)(1)(A).

69 18 U.S.C. § 1833(b)(1)(B).

70 18 U.S.C. § 1833(b)(2).

71 18 U.S.C. § 1833(b)(4).

72 18 U.S.C. § 1833(b)(3)(A).

73 18 U.S.C. § 1833(b)(3)(B). Seemingly, Congress had in mind whistleblower policies that are common in employee policy manuals. It is not clear, however, whether a cross-reference to a standard whistleblower policy would suffice to meet this requirement if that policy does not specify the specific immunizations provided for by the DTSA.

into what was otherwise solely a matter of state law (nondisclosure agreements are governed by state, rather than federal law) is bound to be a trap for the unwary. However, the notice requirement applies only to contracts and agreements entered into after May 11, 2016,⁷⁴ the effective date of the DTSA. Also, a failure to comply does not bar a claim under the DTSA: its bars only the recovery of exemplary damages or attorneys' fees against an employee who had not received the required notice.⁷⁵ Even then, attorneys' fees and exemplary damages would remain available under state law.⁷⁶

Comments

It will be interesting to see whether the actual impact of the DTSA matches the fanfare with which it was enacted. No doubt a seizure order under the DTSA is in theory a powerful, new protection for trade secret owners. However, given the relatively strict requirements that have to be met to obtain a seizure order and the fact that a trade secret owner would have to discover the misappropriation fairly quickly for a seizure order to do any good, it may not be a frequently utilized protection.

Providing courts with original jurisdiction over trade secret claims will no doubt benefit some trade secret claimants by allowing them to sidestep potential disputes about the existence of diversity or pendent jurisdiction. However, many if not a majority of trade secret claims are already heard in federal court. Also, rather than being matters of interstate commerce, many trade secret disputes are local in nature. Accordingly, while the number of trade secret claims brought in federal court will no doubt increase, that increase may be somewhat marginal.

Is not clear that the DTSA can even meet its stated goals. One goal of the DTSA was to bring the rights of trade secrets owners "into alignment with those long enjoyed by owners of other forms of intellectual property, including copyrights, patents, and trademarks."⁷⁷ It does not. Unlike the Patent Act and Copyright Act, which preempt state laws that provide similar rights with respect to inventions and works of authorship respectively, and the Lanham Act, which essentially creates a federal scheme for trademark protection that parallels protections available under state law, the DTSA neither generally preempts state law protection for trade secrets⁷⁸ nor creates any new substantive rights in commercially sensitive information.⁷⁹ Rather, the net impact of the DTSA is to create subject matter jurisdiction for trade secret claims in federal court (where the DTSA's interstate commerce requirement is met) and to create a new—albeit carefully circumscribed—right for a trade secret owner to have the government seize trade secret-related property from a defendant. Thus, although enacted as substantive law, the net effect of the DTSA is largely procedural.

The other goal of the DTSA was to "provide a single, national standard for trade secret misappropriation with clear rules and predictability for everyone involved."⁸⁰ However, prior to the

74 18 U.S.C. § 1833(b)(3)(D).

75 18 U.S.C. § 1833(b)(3)(C).

76 See 4 MILGRIM ON TRADE SECRETS §§ 15.02[3][i], [k].

77 S. Rep. No. 114-220, at 3 (2016).

78 [18 U.S.C. § 1838](#).

79 The DTSA further provides that it shall not be construed to "be a law pertaining to intellectual property for purposes of any other Act of Congress." Defend Trade Secrets Act § 2(g).

80 S. Rep. No. 114-220, at 14 (2016).

DTSA, trade secret law was already largely uniform.⁸¹ As the Senate report for the DTSA itself recognized, the differences among state trade secret laws prior to the adoption of the DTSA were “relatively minor.”⁸² Moreover, the more notable differences in state trade secret law, in particular, differences as to the extent to which the UTSA preempts common law claims concerning trade secret misappropriation⁸³ and the length of the statutes of limitation for trade secret claims,⁸⁴ did not impact what the burden that an owner had to meet to prevail on a misappropriation claim.

More importantly, because the DTSA incorporates the UTSA’s definitions of “trade secret,” “misappropriation” and “improper means,” a federal district court construing the DTSA will, given the lack of other guidance, almost certainly rely on the decisional trade secret law of the state in which its sits to construe the DTSA. By doing so, those courts will likely impart whatever differences exist among state trade secret laws to the DTSA itself. For example, assume State A requires that a trade secret not be known or ascertainable by proper means to satisfy the independent economic value requirement for trade secret protection while State B requires only that the trade secret not be *generally* known or *readily* ascertainable by proper means.⁸⁵ In that event, it could be predicted with some confidence that a federal court sitting in State A would conclude that a trade secret must not be known or ascertainable by proper means to satisfy the DTSA’s definition of “trade secret” while a federal court in State B would conclude that a trade secret must not be *generally* known or *readily ascertainable* to meet that definition. True, the Supreme Court may eventually resolve differences of great importance (and/or federal courts of appeal may take steps to encourage uniformity). However, any uniformity that may result will only *create* conflicts between federal and state trade secret law. For example, in the above hypothetical, were the Supreme Court to conclude that the DTSA requires only that a trade secret not be generally known or readily ascertainable by proper means to satisfy the DTSA’s definition of a “trade secret,” state and federal trade secret law in State A would conflict. Accordingly, notwithstanding the passage of the DTSA, a significant advance in the uniformity of trade secret law is not likely on the horizon.

That said, where a trade secret claimant brings in action for misappropriation in federal court, the claimant would be well-advised to pursue both DTSA claim and a parallel state law claim: the DTSA

81 At the time of the enactment of the DTSA, 47 states had adopted the UTSA. While state enactments of the UTSA were not strictly speaking uniform, the requirements that a trade secret claimant had to meet to establish the existence of a trade secret and an act of misappropriation did not vary significantly. Massachusetts and North Carolina had trade secret statutes that were not based on the UTSA, [Mass. Gen. Laws ch. 93, § 42](#); [N.C. Gen. Stat. §§ 66–152](#), but, in practice, trade secret law in those states did not differ significantly from the UTSA. See § 1 MILGRIM ON TRADE SECRETS § 1.01[3]. New York, which still followed the *Restatement of Torts* (1937) for trade secret misappropriation, was arguably the outlier. However, while there were differences between the *Restatement* and the UTSA, *e.g.*, unlike the *Restatement*, the UTSA did not require that a trade secret be in continuous use in the owner’s business to qualify for protection, the significance of those distinctions were diminishing over time. *E.g.*, *Zylon Corp. v. Medtronic, Inc.*, [2015 N.Y. Misc. LEXIS 1276, 18-19](#), [2015 NY Slip Op 30610\(U\)](#) (Sup. Ct. [N.Y. County Apr. 17](#), 2015) (plaintiffs claimed as their trade secret their process for manufacturing “zero-fold” balloons for angioplasty catheters; the fact that plaintiff, which sought to license the technology to defendant in exchange for royalty payments, did not actually manufacture catheter balloons was not fatal to its claim because the claimed trade secret could be put to continuous use by a catheter balloon manufacturer).

82 S. Rep. No. 114-220, at 2 (2016).

83 For a discussion of the different constructions that courts have given to the UTSA’s preemption provision, see 1 MILGRIM ON TRADE SECRETS § 1.01[3][a].

84 *E.g.*, [Cal. Civ. Code § 3426.6](#) (three-year statute of limitations), [Ohio Rev. Code Ann. § 1333.66](#) (four-year statute of limitations), [765 Ill. Comp. Stat. 1065/7](#) (five-year statute of limitations).

85 The former, stricter rule was, as of 2016, the rule in Kansas while the latter, more lenient rule was followed in other UTSA states. See 1 MILGRIM ON TRADE SECRETS § 1.01[2][c][viii].

claim would resolve any issues about subject matter jurisdiction and at least keep open the possibility of obtaining seizure order while the state law claim would keep open the opportunity to obtain attorneys' fees and exemplary damages in the event the owner has not satisfied DTSA's notice requirements.

[Click here for more Emerging Issues Analyses related to this Area of Law.](#)

About the Author. Eric E. Bensen is the author of [Patent Law Perspectives](#) and coauthor of [Patent Licensing Transactions](#), [Milgrim on Licensing](#) and [Milgrim on Trade Secrets](#), four leading intellectual property treatises from Matthew Bender, as well as the author of [Intellectual Property in Bankruptcy](#) (LexisNexis), a unique guide to the intellectual property issues that can arise in bankruptcy proceedings, and [New York Intellectual Property Law](#) (Matthew Bender), a comprehensive guide to federal and state intellectual property law in New York. He advises clients on complex intellectual property issues and can be reached at ericbensen@me.com.

For more information, please visit www.ericbensen.com.

Emerging Issues Analysis is the title of this LexisNexis® publication. All information provided in this publication is provided for educational purposes. For legal advice applicable to the facts of your particular situation, you should obtain the services of a qualified attorney licensed to practice law in your state.