

President Obama signed the Defend Trade Secrets Act of 2016 (S. 1890) (DTSA) into law on May 11, 2016. As our [Global Business IP and Technology](#) and [Employment Law Worldview](#) blogs note, the DTSA creates the first-ever federal civil cause of action for trade secret misappropriation. Long the domain of state law, the DTSA's advent "elevates" trade secrets to the same federal protection historically enjoyed by patents, trademarks/trade dress, and copyrights.

The DTSA's enactment has predictably led to a flurry of advisories by law firms, individual lawyers and other interested persons and entities. This article distills the DTSA's most important aspects – and omissions – into a distinct set of takeaways of practical use to readers:

- The federal courts now have jurisdiction over trade secret claims that involve interstate or foreign commerce.
- Trade secret owners may obtain *ex parte* orders allowing the seizure of protected trade secrets from those who should not have them, provided that an owner meets the strict conditions for such an order.
- Protection for whistleblowers who disclose trade secrets to law enforcement in confidence, "for the purpose of reporting or investigating a suspected violation of law".
- The absence of any requirement that a secret owner identify the claimed trade secrets before taking discovery.

We briefly discuss each of these takeaways below.

Federal Court Subject Matter Jurisdiction

The DTSA's most immediate impact is a plaintiff's option of federal question subject matter jurisdiction for trade secret claims involving interstate or foreign commerce. Until now, parties were required to litigate trade secret disputes in state courts (absent diversity of citizenship and US\$75,000 or more in controversy). State court proceedings were (and continue to be) litigated under applicable state law – which in 48 states is the Uniform Trade Secrets Act (UTSA), as enacted by that particular state. The DTSA does not eliminate or preempt trade secret claims under state law, even when they involve interstate or foreign commerce.¹ Nevertheless, some litigants will undoubtedly prefer litigating trade secrets claims in federal court.

Ex Parte Seizure Orders

The DTSA generally borrows its provisions from the UTSA. For

¹ Because the DTSA does not preempt state trade secret laws, a defendant may not rely on the DTSA to remove a trade secret misappropriation claim brought under state law, even when the claim affects interstate or foreign commerce. Absent preemption, the "well-pleaded complaint rule" provides that plaintiff is the "master of the claim; he or she may avoid federal jurisdiction by exclusive reliance on state law." *Caterpillar, Inc. v. Williams*, 482 U.S. 386, 392 (1987).

example, the definition of "trade secret" was lifted almost verbatim from the UTSA. Likewise, the DTSA borrows the UTSA's three-year statute of limitations.

But the DTSA makes a significant addition to the arsenal of claims and remedies available to trade secret owners. As under the UTSA as implemented in almost all states, a prevailing plaintiff may recover (a) its actual damages and any amounts by which a defendant has been unjustly enriched, or (b) a reasonable royalty. Injunctive relief is also available, as are exemplary damages of up to two times compensatory damages. The DTSA, however, takes these remedies one step further. A district court may, in "exceptional circumstances," issue an *ex parte* order directing federal officials to seize property as "necessary to prevent the propagation or dissemination of the trade secret that is the subject of the action." 18 U.S.C. § 1836(b)(2). Such a seizure remedy was not previously available for trade secret misappropriation actions (other than those brought in the US International Trade Commission under Section 337 of the Tariff Act).²

Whistleblower Immunity

The DTSA does not lean exclusively in favor of trade secret owners. For example, unlike the UTSA, the DTSA protects whistleblowers who disclose trade secrets to law enforcement, in confidence, "for the purpose of reporting or investigating a suspected violation of law." 18 U.S.C. § 1833(b)(1)(A)(ii). It also eliminates the ability of trade secret owners to obtain enhanced damages and attorneys' fees against employees found to have misappropriated trade secrets if the employer did not provide notice of whistleblower immunity in any employment or non-disclosure agreements that it requires employees to sign. 18 U.S.C. § 1833(b)(3)(A).

² Of interest to some is the DTSA's amendment of the Racketeer Influenced and Corrupt Organizations Act (RICO) – which itself provides a powerful array of remedies – by adding trade secret misappropriation as a predicate act.

The Absence of Any Requirement to Identify Claimed Trade Secrets as a Prerequisite to Plaintiff's Right to Discovery

Trade secrets are different from patents, trademarks and copyrights. The latter forms of IP all emanate from federal government grants (or in the case of copyright proper registration), and all are defined in a publicly accessible writing that concretely sets their metes and bounds. Trade secrets, of course, are secret, losing their protected status if disclosed in the absence of a confidential relationship or confidentiality agreement. Put another way, a trade secret initially is whatever its owner purports it to be. Unscrupulous plaintiffs can abuse that unique characteristic by making vague trade secret misappropriation allegations, taking broad discovery from the defendant based on those allegations, and then refining its claims to coincide with the discovery it receives.

California – and particularly Silicon Valley – has long been a hotbed of trade secret claims. Defendants in state court there are protected from the type of unscrupulous activity described above by the requirement that “before commencing discovery relating to the trade secret, the party alleging the misappropriation shall identify the trade secret with reasonable particularity.” Cal. Code Civ. Proc. § 2019.210. Typically done after entry of a suitable protective order for confidential information, the statute protects against fishing expeditions based on vague allegations.³

The DTSA has no provision analogous to § 2019.210. Absent adoption of such a provision by local rule or local practice, DTSA defendants should raise the issue in the initial Rule 16 scheduling conference or by way of protective order.

Webinar on June 9, 2016.

To aid our clients and friends in understanding the DTSA and its possible use and implications, we will host a webinar on June 9. Our speakers, [Steven M. Auvil](#), [David Elkins](#) and [Jill S. Kirila](#) will cover the following topics:

- Key DTSA provisions, open questions, and underlying policy considerations
- Practical considerations in bringing trade secrets claims, including the relative advantages and disadvantages of bringing such claims in federal court under the DTSA versus bringing them in state court under state trade secrets law
- Practical considerations in defending DTSA claims
- Best practices to take full advantage of the DTSA

We hope that you can join us.

For more information and to register, [visit our website](#).

CLE is approved in AZ, CA, NJ and NY and pending in FL, OH and TX.

³ California state courts will not allow discovery to proceed on other claims if based on the same nucleus of facts underlying the trade secret claim. Moreover, the U.S. District Courts in California with diversity jurisdiction have generally (but not universally) applied section 2019.210 to trade secret actions under California's UTSA.