

How 5-Year-Old Defend Trade Secrets Act Has Met Its Goals

By **Mark Klapow, Robert Kornweiss and Ian Logan** (May 11, 2021, 3:34 PM EDT)

The history of the Defend Trade Secrets Act[1] starts with the publication of the Uniform Trade Secrets Act in 1979. Before the UTSA, misuse of a trade secret was a common law tort, governed by the case law of each state.

The UTSA sought to bring uniformity to this environment given the rise of interstate business over the 20th century.

With its adoption in key holdout states over the last decade — Texas, New Jersey and Massachusetts — some version of the UTSA is now the law in 49 states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands. Only New York is a true holdout, although obviously an important one given the preeminent role of New York law in commerce.

Around the turn of the 21st century, lawmakers and practitioners began to discuss creating a federal private right of action to protect trade secrets alongside the UTSA.

The goal was never to abrogate state law. Rather, the goal was to provide trade secret litigants access to the resources and reach of federal courts, increase uniformity in the law, and enable swifter responses to cross-border and extraterritorial misappropriation.

The result was the DTSA, enacted in 2016. But it almost did not happen. Skepticism was expressed at that time by various groups, including professors who wrote letters in response to several drafts of the bill.[2] Detractors argued that the DTSA would in fact undermine the high degree of uniformity in trade secret law by forcing new differences into the jurisprudence. Others feared the potentially expansive reach of the DTSA's ex parte seizure provision.

Five years since the DTSA became the law, we now have the time, experience and resources to take stock of whether or how these aspirations and concerns bore out.

Five Years Later: What Have We Learned?



Mark Klapow



Robert Kornweiss



Ian Logan

Federal courts are open to trade secret litigants.

Two major advantages set forth by Congress in passing the DTSA were the resources and reach of federal courts. Federal courts have nationwide subpoena power, access to broader resources, and experience with other forms of intellectual property, like patents.

Congress sought to leverage these advantages but did so without depriving plaintiffs of the ability to bring claims under state trade secret laws. This led litigants and scholars to wonder how frequently the DTSA would be used and what impact, if any, it would have on how often plaintiffs would bring state law claims.

The data from the last five years show that the number of trade secret cases in federal court has increased substantially. Lex Machina data analytics show that trade secret case filings in federal courts remained steady during the years leading up to the passage of the DTSA.

But between 2015 and 2017 — one year before the DTSA to one year after its passage — filings with trade secret claims climbed 30%, from under 1,100 to nearly 1,400. Since 2017, case numbers have remained steady around 1,400 per year.

The number of cases in federal court asserting a DTSA claim has also risen every year since 2016.[3] By 2019, 72% of all trade secret cases in federal district court had a DTSA claim. Meanwhile the number of trade secrets cases filed without a DTSA claim fell from 676 cases in 2016 to 393 in 2019.

Congress reasoned that the DTSA might also mitigate the costs of conforming to the trade secret laws of individual states. But state laws were not abrogated, so the cost of compliance did not necessarily diminish. And because DTSA claims are frequently brought alongside UTSA claims, there could be extra costs of analyzing facts under two sets of laws. In practice, we believe this is rarely seen.

In sum, the advantages offered by federal courts, and the goals of the act itself, are bearing out to make the DTSA a viable and productive means of protecting trade secrets in federal courts.

Uniformity is increasing.

Congress intended that the DTSA would contribute to uniformity and a richer and more consistent source of precedent. But uniformity was not a universally shared goal. While the UTSA was widely adopted, many states made changes to the language of the UTSA when adopting their own versions, and some detractors of the DTSA worried about the undesired or unnecessary impact the DTSA would have on the unique bodies of existing law in each state.

The results seem to be balanced, as the DTSA has often been interpreted harmoniously with the UTSA, without overriding states' individual doctrines on particular issues.

As an initial matter, to alleviate concerns about overreach, the DTSA expressly does not override any existing state laws.[4] Plaintiffs therefore may, and frequently do, bring claims under the DTSA and the applicable state trade secret law. Because many courts have looked to UTSA precedent to guide or supplement their analysis under the DTSA, more harmony than conflict has been created.[5]

Concerns that state-specific trade secret doctrines would be overridden by the DTSA also do not appear

to have manifested. For example, some detractors saw in the DTSA an implicit acknowledgment of the inevitable disclosure doctrine[6] and worried the DTSA would introduce that doctrine into jurisdictions that previously disallowed it.

But California still rejects the inevitable disclosure doctrine,[7] whereas other states like Pennsylvania recognize it.[8] Another example is whether irreparable harm can be presumed when seeking an injunction for trade secret misappropriation. Since the passage of the DTSA, certain jurisdictions continue to apply this presumption,[9] while others continue not to.[10]

Others voiced concerns about the statute of limitations. Most states have a three-year limitation period under their respective UTSA provisions. The 2015 draft of the DTSA, however, had a five-year limitation period.

When critics raised this distinction as likely to add to confusion between the legislative schemes, Congress aligned with the majority of states and revised the DTSA to provide the three-year limitation period in effect today. The DTSA has thus led to a body of federal case law that generally harmonizes with UTSA jurisprudence, without encroaching on existing state-specific doctrines.

Plaintiffs can recover from international misappropriators.

One of the key policies behind the DTSA is protection of domestic trade secrets from theft and misappropriation by foreign actors.[11] Title 18 of the U.S. Code, Section 1837, explicitly states that the DTSA applies to certain conduct occurring outside the United States, and the DTSA has proven effective for enforcement against foreign entities.

For example, last year, the U.S. District Court for the Northern District of Illinois affirmed that plaintiffs can recover under the DTSA for misappropriation that occurs outside the U.S.[12] In *Motorola Solutions Inc. v. Hytera Communications Corp.*, Chicago-based Motorola sued the Chinese company Hytera for the theft of its trade secrets related to two-way radios.

Motorola alleged that Hytera had hired employees away from its Malaysian office and that those employees stole trade secrets and brought them to Hytera. Hytera filed a motion to preclude Motorola from relying on extraterritorial damages, arguing that the DTSA did not have extraterritorial reach.[13]

The court conducted a lengthy analysis of the DTSA, including the drafting history and intent of Congress, ultimately finding for the plaintiff.[14] After the court's ruling was handed down, a jury awarded Motorola \$764 million in damages,[15] an amount later reduced to \$544 million.[16]

In addition, in 2019, the U.S. District Court for the Northern District of California denied a motion to dismiss filed by the defendants in *Micron Technologies Inc. v. United Microelectronics Corp.*[17] The defendants in *Micron Tech* were two Chinese companies that allegedly conspired to steal semiconductor technologies from the U.S. plaintiffs.[18]

The plaintiffs filed a complaint including a claim under the DTSA, and the defendants sought to dismiss the action due to lack of personal jurisdiction and failure to state a claim under the DTSA.

The court found for the plaintiffs but dismissed the DTSA claims in part and only to the extent the wrongful acquisition of certain trade secrets predated the statute, which does not apply retroactively.[19] The court ruled that other claims in furtherance of the misappropriation, and

occurring after the passage of the DTSA, were adequately alleged.[20]

In the 2020 *vPersonalize Inc. v. Magnetize Consultants Ltd.* case in the U.S. District Court for the Western District of Washington, the defendants, based in the U.K., were accused of violating the DTSA by knowingly acquiring the plaintiff's screen printing technology through improper means.[21] The defendants argued in their motion to dismiss that the civil enforcement mechanism under the DTSA does not apply extraterritorially. The court disagreed, finding that enforcement of the DTSA in the civil context "may be applied to a foreign entity." [22]

In view of cases like the examples above, the DTSA has proven itself useful in protecting trade secrets from misappropriation by foreign actors.

Ex parte seizure is not often used.

The ex parte seizure provision of the DTSA was one of the most debated provisions of the act during its development. The provision gives courts the power to seize potentially stolen trade secrets without providing any notice to the defendant and was drafted with the intent to, for example, seize a laptop just before a misappropriator is able to board a flight and flee the reach of U.S. courts.

Critics argued that Federal Rule of Civil Procedure 65,[23] which provides for preliminary injunctions and temporary restraining orders, served a sufficiently similar purpose and worried that an additional form of injunction would invite abuse by litigants. The professors who signed letters of opposition argued that the ex parte seizure provision was vague, and could therefore be interpreted broadly.

Additionally, some were concerned that the provision would enable large companies that could afford to bring frivolous suits to stamp out small businesses and burgeoning competition. Heeding these concerns, the provision was amended several times during the drafting process.[24]

Whether the result of careful drafting, scrupulous judges, or both, these concerns have generally not come to fruition. A review of trade secrets cases from 2016 to the present shows that motions for ex parte seizure under the DTSA have been filed just over 20 times, and granted only about half the time, with courts seeming to favor the traditional grant of TROs or preliminary injunctions.[25]

While it does not appear that plaintiffs or courts are abusing the ex parte seizure provision, it remains unclear just how effective it has proven as a rapid response to potential theft. At least one seizure order did not issue until weeks after it was granted,[26] while others have taken several days.[27]

Conclusion

With the DTSA, Congress sought to expand trade secret owners' ability to protect their trade secrets in federal court, including against foreign actors, without encroaching on existing state trade secret law.

After five years, the act has achieved these goals, and the concerns expressed leading up to its enactment have generally not manifested. As trade secret protection becomes more important for companies, we expect reliance on the DTSA to continue prominently into the future.

Mark Klapow is a partner and co-chair of the litigation group at Crowell & Moring LLP.

Robert B. Kornweiss and Ian Logan are associates at the firm.

Law360 is owned by LexisNexis Legal & Professional, a RELX company, which owns Lex Machina.

The opinions expressed are those of the author(s) and do not necessarily reflect the views of the firm, its clients or Portfolio Media Inc., or any of its or their respective affiliates. This article is for general information purposes and is not intended to be and should not be taken as legal advice.

[1] 18 U.S.C. § 1836, et seq.

[2] Eric Goldman et al., Professors' Letter in Opposition to the Defend Trade Secrets Act of 2015 (S. 1890, H.R. 3326) (November 17, 2015), <https://bit.ly/3xNSsW8>.

[3] According to the 2020 Lex Machina Trade Secret Litigation Report, DTSA case filings in 2016 numbered 469, and rose to 897 in 2017, 979 in 2018, and 1,008 in 2019.

[4] 18 U.S.C. § 1838.

[5] See *Kuryakyn Holdings, LLC v. Ciro, LLC*, 242 F. Supp. 3d 789, 797–98 (W.D. Wis. 2017) ("The DTSA gives rise to a federal cause of action, but the parties agree that substantively the UTSA and DTSA are 'essentially the same,'...and that courts may look to the state UTSA when interpreting the DTSA.[citation omitted] Thus, the court's analysis will use Wisconsin's UTSA, but the analysis would apply as well to the DTSA."); *Trent P. Fisher Enterprises, LLC v. SAS Automation, LLC*, No. 3:20-CV-216, 2021 WL 1209637, at *5 (S.D. Ohio Mar. 31, 2021) ("[C]ourts typically look to the state UTSA when interpreting the DTSA inasmuch as the two are substantively identical."); *Ukrainian Future Credit Union v. Seikaly*, No. 17-CV-11483, 2017 WL 5665960, at *10 n.11 (E.D. Mich. Nov. 27, 2017) ("The requirements for establishing misappropriation of a trade secret are largely the same under the DTSA and the Uniform Act.").

[6] The inevitable disclosure doctrine posits that an employee "may be enjoined by demonstrating that the employee's new job duties will inevitably cause the employee to rely upon knowledge of the former employer's trade secrets." *Whyte v. Schlage Lock Co.*, 101 Cal. App. 4th 1443, 1446 (2002).

[7] *UCAR Tech. (USA) Inc. v. Yan Li*, No. 5:17-CV-01704-EJD, 2017 WL6405620, at *3 (N.D. Cal. Dec. 15, 2017) ("California courts have resoundingly rejected claims based on the 'inevitable disclosure' theory.").

[8] *Jazz Pharm., Inc. v. Synchrony Grp., LLC*, 343 F. Supp. 3d 434, 446 & n.52 (E.D. Pa. 2018) (noting that the inevitable disclosure doctrine "applies in the context of both the DTSA and the PUTSA").

[9] See *Comet Techs. U.S. of Am. Inc. v. Beuerman*, No. 18-CV-01441-LHK, 2018 WL1990226, at *5 (N.D. Cal. Mar. 15, 2018) ("[C]ourts in this district have presumed that Plaintiff will suffer irreparable harm if its proprietary information is misappropriated."); *Signal Fin. Holdings LLC v. Looking Glass Fin. LLC*, No. 17 C 8816, 2018 WL 636769, at *5 (N.D. Ill. Jan. 31, 2018) ("Under Illinois law, there is a rebuttable presumption of irreparable harm in cases involving misappropriation of trade secrets.").

[10] *First W. Capital Mgmt. Co. v. Malamed*, 874 F.3d 1136, 1143 (10th Cir. 2017) ("DTSA and CUTSA . . . merely authorize and do not mandate injunctive relief and thus do not allow a presumption of irreparable harm.").

[11] U.S. Dept. of Just., Report to Congress Pursuant to the Defend Trade Secrets Act (2018), <https://www.justice.gov/ip/f/page/file/1101901/download>.

[12] Motorola Sols., Inc. v. Hytera Commc'ns Corp., 436 F. Supp. 3d 1150, 1166 (N.D. Ill. 2020).

[13] Id. at 1154.

[14] Id. at 1157-1167.

[15] Matthew Bultman, Motorola's Trade Secrets Win Shows U.S. Law's Potential Reach, Bloomberg Law (Feb. 25, 2020), <https://news.bloomberglaw.com/ip-law/motorolas-trade-secrets-win-shows-u-s-laws-potential-reach>.

[16] Carla Salvatore, \$760M Motorola Walkie-Talkie Trade Secret Win Cut To \$540M, Law360, <https://www.law360.com/articles/1344084>.

[17] Micron Tech., Inc. v. United Microelectronics Corp., No. 17-cv-06932-MMC, 2019 U.S. Dist. LEXIS 74527, at *28 (N.D. Cal. May 2, 2019).

[18] Id. at *2-*3.

[19] Id. at *29.

[20] Id.

[21] vPersonalize Inc. v. Magnetize Consultants Ltd., 437 F. Supp. 3d 860, 877-78 (W.D. Wash. 2020).

[22] Id. at 878.

[23] Fed. R. Civ. P. 65

[24] For example, after concerns were raised that ex parte seizure could interrupt the businesses of third parties, the House revised the 2014 draft of the Act to limit execution of ex parte seizure only against a party who misappropriated the trade secret and was in possession of it.

[25] Lex Machina analytics show that from 2016 to the present, requests for TROs were granted 510 times and denied 203 times, while 542 preliminary injunctions were granted and 214 were denied.

[26] Shumway v. Wright, No. 19-cv-58, 2019 WL 8137119 (D. Utah Aug. 26, 2019).

[27] Ruby Slipper Café LLC v. Belou, No. 18-cv-1548, 2020 WL 491228 (E.D. La. Jan. 29, 2020); Solar Connect LLC v. Endicott, No. 17-cv-1235, 2018 WL 8786166 (D. Utah Feb. 16, 2018); Mission Capital Advisors LLC v. Romaka, No. 16-cv-5878, 2016 WL 11517104 (S.D.N.Y. July 29, 2016).