



Cantor Colburn White Paper: For the First Time, Federal Law Will Cover Trade Secrets

President Obama is expected to approve the Defend Trade Secrets Act (DTSA), a major expansion of American trade secret law. DTSA for the first time provides a federal cause of action for trade secret misappropriation. Publically traded U.S. companies are estimated to own \$5 trillion worth of trade secrets.¹ A trade secret is confidential, commercially valuable information that provides its owner with an on-going competitive advantage. Examples include the secret formula for Coca-Cola and the Google algorithm.

The DTSA not only provides civil remedies for trade secret misappropriation, including injunctive relief, damages, and reasonable attorney's fees if a claim is made in bad faith, but includes a highly controversial mechanism for *ex parte* seizure of misappropriated trade secrets. Under the DTSA, a plaintiff can seek to have the court seize, without prior notice to the target, any property as is "necessary to prevent the propagation or dissemination of the trade secret." This does poses a risk of abuse and is accordingly constrained by a number of provisions, including that such seizures are to be used only in defined "extraordinary circumstances." These extraordinary circumstances include situations where a defendant might flee the country or is planning to immediately disclose the trade secret to a third party. The DTSA also requires proof that the seizure target has actual possession of the trade secret property. The DTSA provides a high bar that a plaintiff must meet before a court enters an *ex parte* seizure order. A plaintiff must be wary that the DTSA also provides a cause of action for any person who suffers damages from a wrongful or excessive seizure.

Prior to the DTSA, a plaintiff was generally restricted to state law claims for trade secret violations, as no private federal cause of action existed. It has been argued that "federal law has

¹ U.S. Chamber of Commerce, *The Case for Enhanced Protection of Trade Secrets in the Trans-Pacific Partnership Agreement*, at 10, available at https://www.uschamber.com/sites/default/files/legacy/international/files/Final%20TPP%20Trade%20Secrets%208_0.pdf.

not kept pace with the technological innovation that has enabled increased trade secret theft.”²

While most states have enacted some form of the Uniform Trade Secret Act, which was an attempt to provide uniformity among the states, many discrepancies still exist. State trade secret laws often differ from state to state in minor ways, which can yield unpredictable results.

The DTSA will not preempt state trade secret law but provides trade secret holders access to federal jurisdiction to protect their intangible assets in cases where federal jurisdiction can be established. Unlike patent and copyright protection, trade secrets are not specified in the Constitution as a right to be bestowed by Congress. Therefore, Congress could only regulate trade secrets under the Commerce clause of the Constitution unless a separate basis for federal jurisdiction, such as diversity of citizenship or pendant jurisdiction can be established. Otherwise, intrastate trade secret violations can proceed only under existing state trade secret law. Substantively, the DTSA models its definition of “trade secret,” “misappropriation,” and “improper means” on the Uniform Trade Secret Act. However, providing a federal cause of action provides plaintiffs with numerous potential advantages. Many experts also feel that federal courts are better equipped to handle trade secret matters, particularly those with cross-state implications or cases that cover particularly complex technology.

² *Trade Secrets: Promoting and Protecting American Innovation, Competitiveness and Market Access in Foreign Markets: Hearings Before the House Judiciary Comm., Subcomm. on Courts, Intellectual Property and Internet, 113th Cong. 2d Sess. (2014)* (statement of Thaddeus Burns, Senior Counsel, General Electric, on behalf of the Intellectual Property Owners Association).