A NEW WORLD FOR TRADE SECRETS IN FRANCHISING:
NEW OPTIONS AND STRATEGIES UNDER THE
FEDERAL DEFEND TRADE SECRETS ACT

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A NEW WORLD FOR TRADE SECRETS IN FRANCHISING: NEW OPTIONS AND STRATEGIES UNDER THE FEDERAL DEFEND TRADE SECRETS ACT

I. OVERVIEW

Trade secrets have long held an important role in franchising. Whether it be a secret recipe, such as KFC’s secret blend of 11 herbs and spices, or a proprietary software package that allows a business to operate more efficiently than its competitors, trade secrets have been a significant part of many franchised businesses. Access to a franchisor’s trade secrets has likewise served as an important consideration for prospective franchisees that are evaluating a potential franchise opportunity. Franchisors that have developed a recipe, business method, or process likewise had to consider what type of protection best served the interest of its system. For example, a franchisor often needs to decide whether to seek a patent, which provides a limited period of strong protection but also results in disclosure of the intellectual property at issue, or whether it should maintain the intellectual property as a trade secret.

Prior to 2016, franchisors and other owners of trade secrets who selected the trade secret approach to protection of intellectual property were faced with a patchwork of state statutory and common law protections. However, the Defend Trade Secrets Act (“DTSA”), enacted as an amendment to the Economic Espionage Act (“EEA”),¹ and effective May 11, 2016, for the first time established a uniform, federal cause of action for the misappropriation of trade secrets, as well as federal court jurisdiction for such claims. The DTSA serves as an important additional tool for trade secret owners to protect their trade secrets. But, because the DTSA did not pre-empt state trade secret laws, franchisors and other trade secret owners need to be aware of the different scope of protection under the DTSA and various state laws as they consider how best to protect their trade secrets, particularly when litigation becomes necessary.

This paper explores the nature of trade secrets and their importance in franchising (Section II); provides an overview of the key provisions of the DTSA and its legislative history (Section III); summarizes the Uniform Trade Secrets Act (“UTSA”) and its various state enactments of the UTSA (Section IV); catalogues the main differences between the DTSA and the state enactments of the UTSA (Section V); and discusses early decisions interpreting the DTSA (Section VI). Finally, the authors explore key transactional issues and litigation strategy issues relating to the DTSA (Sections VII and VIII).

II. TRADE SECRETS AND THEIR IMPORTANCE IN FRANCHISING

A. Common Types of Trade Secrets in Franchising

While the trade secrets that are important to franchising may take a variety of forms, the most common trade secrets are recipes and formulas, methods of doing business, strategic business plans, customer lists and information, marketing and promotional campaigns, and software. Each of these categories is discussed briefly in this subsection.²


1. **Recipes and Formulas**

KFC's 11 secret herbs and spices may be one of the more historically famous secret franchisor recipes. They have been specifically found to qualify as a trade secret.\(^3\) McDonald's special sauce for its Big Mac and the recipe for the Krispy Kreme Doughnut are also famous trade secret recipes. Indeed, many restaurant-concept franchise systems have recipes that qualify as trade secrets. It is worth noting, however, that not all recipes and formulas automatically qualify as trade secrets. For example, recipes for common types of food that would be easy to replicate or that are self-evident from dishes served to the public generally would not qualify for protection as trade secrets.\(^4\) Cleaning franchises that use proprietary cleaning products are one example of a franchise system that may maintain formulas as trade secrets.\(^5\)

Formulas and recipes are specifically discussed as types of trade secrets that, when constituting part of a franchise system, should be disclosed in a franchisor's Franchise Disclosure Document ("FDD").\(^6\)

2. **Methods of Doing Business or Business Processes**

While business processes may be protected by patents, franchisors also may elect to protect them by maintaining them as trade secrets. Examples of methods of doing business or business processes used by franchise systems that may qualify as trade secrets range from specific functions, such as systems for efficiently managing inventory, to the comprehensive system for operating a particular form of franchise.\(^7\)

3. **Strategic Business Plans**

Oftentimes, a strategic business plan may relate to the franchisor's business plan, and is not shared with franchisees. However, some franchise systems provide assistance to their franchisees in connection with preparing strategic business plans to maximize their competitiveness in their market.\(^8\)

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\(^3\) See *KFC Corp. v. Marion-Kay Co.*, 620 F. Supp. 1160, 1172 (S.D. Ind. 1985).

\(^4\) See *Buffets, Inc. v. Kline*, 73 F. 3d 965, 968-69 (9th Cir. 1996) (recipes for common food items such macaroni and cheese or barbeque chicken do not qualify as trade secrets).


\(^6\) See 16 C.F.R. § 436.5(n)(7) ("If the franchisor claims proprietary rights in other confidential information or trade secrets, describe in general terms the proprietary information communicated to the franchisee and the terms for use by the franchisee. The franchisor need only describe the general nature of the proprietary information, such as whether a formula or recipe is considered to be a trade secret.").

\(^7\) See *Gold Messenger, Inc. v. McGuay*, 937 P.2d 907 (Colo. App. 1997) (holding that the information in a franchisor's confidential operations manual regarding the methods of operating an advertising circular business constituted a trade secret).

\(^8\) See, e.g., *Motor City Bagels, LLC v. The American Bagel Co.*, 50 F. Supp. 2d 460, 479 (D. Md. 1999) (holding that a franchisee's "extensive compilation of information and analysis in [its] business plan qualifies as a trade secret," but dismissing its trade secret claim based upon a failure to take reasonable measures to ensure its secrecy).
4. Customer Lists and Information

In the current times where data may be a company’s most valuable asset, customer lists and customer information are an important trade secret for many franchised businesses. Both lists of current customers and prospective customers may qualify as protectable trade secrets. Customer lists and information are particularly valuable trade secrets in many service-based franchise systems.

5. Marketing and Promotional Campaigns

While marketing and promotional campaigns will likely involve aspects that are viewed by and known to the public (that is the goal of most marketing campaigns, after all), aspects of a marketing campaign including what channels are planned to be used, the frequency of particular promotions, and the costs of such programs may constitute protectable trade secrets as they provide a franchise system with a competitive advantage that would be diminished if known to the system’s competitors.

6. Software

Proprietary computer software is a trade secret for many franchise systems. Such software may be the core element of the franchise system, such as tax preparation software in a tax preparation franchise system. A franchise system’s software may also include proprietary algorithms that assist a franchisor and its franchisees with targeted marketing or with establishing pricing. Software may also overlap with other trade secrets, as when customer lists and information are stored in the proprietary software.

B. Confidential Operations Manuals

Franchisors often set forth many of their trade secrets in their confidential operations manuals. Indeed, the operations manuals often themselves constitute trade secrets. In recognition of the importance of confidential operations manuals, and their included trade secrets, Item 11 of the FTC’s Rule on Franchise Disclosures (“FTC Rule”) requires that franchisors either disclose the table of contents in the FDD or provide prospective franchisees

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10. See, e.g., American Express Fin. Advisors, Inc. v. Yantis, 358 F. Supp. 2d 818, 831 (N.D. Iowa 2005) (in the context of a preliminary injunction, finding that the franchisor was likely to succeed in establishing that customer lists and related information qualified as a trade secret); Jackson Hewitt Inc. v. Childress, No. 06-CV-909, 2008 WL 199539, at *7 (D.N.J. Jan. 22, 2008) (granting injunction to preclude former franchisee’s use of customer information, which franchisee had acknowledged to be a trade secret in its franchise agreement).


12. See, e.g., Naturlawn of America, Inc. v. West Group, LLC, 484 F. Supp. 2d 392, 399 (D. Md. 2007) (finding that franchisor’s specially designed software qualified as a trade secret).

13. Id. (franchisor alleged that defendants misappropriated its trade secret software “both to utilize products and in order to gain customer lists”).
with the opportunity to view the operating manual itself prior to entering the franchise agreement.\(^\text{14}\) Preferring to maintain the confidentiality of their operations manuals and to not provide access to prospects who may decide not to become franchisees, most franchisors elect to disclose the table of contents in their FDD.\(^\text{15}\)

C. Item 14 of FDD

Item 14 of the FTC Rule requires disclosure of information about intellectual property related to the franchise.\(^\text{16}\) According to the Compliance Guide, "[f]ranchisors must disclose the types of intellectual property, their ownership rights or licenses in each, details about, and the duration of, their rights, and any legal proceedings, settlements, and restrictions that may impact the franchisee’s ability to use such property, among other things."\(^\text{17}\) As part of such disclosures, many franchisors describe the types of trade secrets and the confidential operations manual owned by the franchisor and to which the franchisee will have access in connection with the operation of its franchised business.

III. OVERVIEW OF DTSA

A. Enactment of DTSA

The DTSA was signed into law by President Obama on May 11, 2016. It was codified at 18 U.S.C. §§ 1831-1839, 1961, and grafted onto the Economic Espionage Act ("EEA"). The EEA, which was enacted in 1996 and amended in 2012, already provided protections for trade secrets, but previously included only criminal penalties, providing that:

> Whoever, with intent to convert a trade secret, that is related to a product or service used in or intended for use in interstate or foreign commerce, to the economic benefit of anyone other than the owner thereof, and intending or knowing that the offense will injure any owner of that trade secret, knowingly -

(1) steals, or without authorization appropriates, takes, carries away, or conceals, or by fraud, artifice, or deception obtains such information;
(2) without authorization copies, duplicates, sketches, draws, photographs, downloads, uploads, alters, destroys, photocopies,

\(^{14}\) See 16 C.F.R. § 436.5(k)(6) ("Disclose the table of contents of the franchisor's operating manual provided to franchisees as of the franchisor's last fiscal year-end or a more recent date. State the number of pages devoted to each subject and the total number of pages in the manual as of this date. This disclosure may be omitted if the franchisor offers the prospective franchisee the opportunity to view the manual before buying the franchise."). The 1993 UFOC Guidelines had a comparable requirement. See UFOC Guidelines Item 11, Instructions, B(vii).

\(^{15}\) For a summary of the advantages and disadvantages of each of these approaches, see James W. Denison, Why It's Tough to Have Hard-and-Fast Rules About Operations Manuals, 30 Franchise L.J. 239, 243-44 (Spring 2011).

\(^{16}\) See 16 C.F.R. § 436.5(n)(7) ("If the franchisor claims proprietary rights in other confidential information or trade secrets, describe in general terms the proprietary information communicated to the franchisee and the terms for use by the franchisee. The franchisor need only describe the general nature of the proprietary information, such as whether a formula or recipe is considered to be a trade secret.").

replicates, transmits, delivers, sends, mails, communicates, or conveys such information;
(3) receives, buys or possesses such information, knowing the same to have been stolen or appropriated, obtained, or converted without authorization;
(4) attempts to commit any offense described in any of paragraphs (1) through (3); or
(5) conspires with one or more other persons to commit any offense described in paragraphs (1) through (3), and one or more of such persons do any act to effect the object of the conspiracy,
shall . . . be fined under this title or imprisoned not more than 10 years, or both.  

Based upon a growing consensus that the EEA was not adequately deterring misappropriation of trade secrets, Congress considered establishing a private right of action to further protect trade secrets. In 2012, a bill that included a federal civil trade secret cause of action and ex parte seizure provisions was introduced in the Senate. That bill, Senate Bill 3389, was known as the Protecting American Trade Secrets and Innovation Act of 2012. While that bill was referred to the Senate Judiciary Committee, no further action was taken on it during the 112th Congress.

In 2014, Senate Bill 2267, referred to as the Defend Trade Secrets Act of 2014, was introduced in the Senate. This bill had bipartisan support. Also in 2014, the House took up consideration of the Trade Secrets Protection Act, House Resolution 5233. Compared with the Senate Bills, House Resolution 5233 contained greater proposed protections against potential abuses of the ex parte seizure process. While House Resolution 5233 was reported out of committee following a markup, it did not progress further during the 113th Congress.

On July 29, 2015, both Senate Bill 1890 and House Resolution 3326 were introduced. The bills introduced were identical, and were modeled on House Resolution 5233 from the 113th Congress. The proposed legislation was referred to as The Defend Trade Secrets Act of 2015. After a series of amendments, the Senate passed the bill on April 11, 2016, and the House passed the bill approximately two weeks later. President Obama signed the bill, which became law effective May 11, 2016.

B. Key Provisions

1. Federal Cause of Action

One of the more significant features of the DTSA is that it creates a federal private cause of action for trade secret misappropriation. The DTSA also provides federal subject matter

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18 18 U.S.C. § 1832(a). Any organization committing an offense under Section 1832(a) shall not be fined more than $5,000,000. 18 U.S.C. § 1832(b). The EEA also included penalties for “economic espionage.” 18 U.S.C. § 1831.


jurisdiction, which permits trade secret claims to be brought in federal court.\footnote{18 U.S.C. § 1836(c).} Trade secret holders may prefer to pursue actions to protect their trade secrets in federal court, rather than state court, for many of the same reasons that guide parties in deciding whether they prefer to have their dispute resolved in federal court. If a DTSA claim is pursued in federal court, all related claims, including common law claims and claims under an applicable state enactment of the UTSA, may be brought in federal court.\footnote{28 U.S.C. § 1367. This is true even if the other claims could not have been brought in federal court prior to enactment of the DTSA.} This is an important strategic decision to bear in mind, given that the DTSA does not preempt or displace other applicable federal or state law.\footnote{18 U.S.C. § 1838. When a theft of trade secrets has been conducted through use of computers or other electronic means, the trade secret owner should not forget to consider adding a claim pursuant to the Computer Fraud and Abuse Act ("CFAA"). 18 U.S.C. § 1030. A violation of the DTSA also constitutes a predicate act under the civil Racketeer Influenced and Criminal Organizations ("RICO") law, 18 U.S.C. § 1961(1). A trade secret holder bringing a DTSA claim should consider the scope of the alleged misappropriation and the organizations involved in determining whether to assert a civil RICO claim based upon the alleged trade secret misappropriation.\footnote{See UTSA § 7 (providing that the UTSA displaces “conflicting tort, restitutionary, and other law of this State”). Other common law claims that have been asserted to address misappropriation of trade secrets include common law misappropriation of trade secrets, breach of fiduciary duty or loyalty by key employees, and intentional interference with contractual relations.} For organizations that operate nationwide, or even in multiple states, conduct might be permissible in some jurisdictions but unlawful in others. Such differences also could lead to forum-shopping and significant choice of law battles. This would have been particularly true for cases having a connection to New York or Massachusetts because those two states have not enacted a version of the UTSA.

Prior to enactment of the DTSA, most trade secret claims were brought pursuant to the various state enactments of the UTSA or various common law theories.\footnote{There are differences among interpretations of many key issues that arise in the litigation of trade secrets cases. For example, there are decisions holding both ways on the issue of whether the trade secret acts preempt fraud claims. Compare Chatterbox, LLC v. Pulsar Ecpoproducts, LLC, 2007 WL 1388183 (D. Idaho May 9, 2007) (not preempted) with Weins v. Sporleder, 605 N.W.2d 448 (S.D. 2000) (preempted). As another example, there is a split as to whether the plaintiff in a trade secret claim must be the owner of the trade secret at issue. Compare Metso Minerals Inds. v. FLSmidth-Excel LLC, 733 F. Supp. 2d 969, 972 (E.D. Wis. 2010) (plaintiff need only prove it rightfully possesses the trade secrets) with N.C. Gen. Stat. § 66-153 (providing that plaintiff must own the trade secret).} Due to differences in the various state enactments of the UTSA, decisions under one state’s law may not be relevant to considerations under another state’s law, leading to divergent decisions.\footnote{For example, one of the threshold inquiries in a choice of law analysis is whether there is any conflict between the potentially applicable state laws. Where there is no conflict, the courts skip any conflict of law analysis and apply the forum state’s law. See, e.g., Pekin Ins. Co. v. XData Solutions, Inc., 958 N.E.2d 397, 354 Ill. Dec. 654 (Ill. App. Ct. 2011).} For organizations that operate nationwide, or even in multiple states, conduct might be permissible in some jurisdictions but unlawful in others. Such differences also could lead to forum-shopping and significant choice of law battles. This would have been particularly true for cases having a connection to New York or Massachusetts because those two states have not enacted a version of the UTSA.

The uniform federal private cause of action should promote a uniform body of interpretational decisions, ensure that all owners of trade secrets have private remedies available throughout the United States, and minimize the incentive for forum shopping and the need for disputes regarding the applicable law.\footnote{20 U.S.C. § 1367. This is true even if the other claims could not have been brought in federal court prior to enactment of the DTSA.}
2. **Refined Definition of Trade Secrets**

As discussed in Section V.B below, there are differences in the definition of "trade secrets" between the DTSA and the UTSA. Commentators differ in their views as to which definition is broader. One clear difference is that the DTSA’s definition more specifically addresses electronic data and information. However, "[w]hether the definitional difference between UTSAs and the DTSA will significantly impact the scope of assets protected under federal as opposed to state law remains to be seen."  

3. **Nationwide Discovery and Injunction**

Nationwide discovery and availability of injunctions is another key aspect of the DTSA. The DTSA will make it much easier for a party to pursue out-of-state discovery in connection with trade secret claims. The DTSA is also more conducive to injunctions involving actions across state lines when compared with a state court proceeding under a state enactment of the UTSA.  

4. **Ex Parte Seizures**

A controversial remedy under the DTSA, which has received much attention, is the potential availability of *ex parte* seizures. Under this extraordinary remedy, a trade secret owner may be able to seize information relating to its trade secrets that are in the possession of another party. The DTSA establishes, appropriately, very strict requirements for a party seeking an *ex parte* seizure, and the consequences for an improper seizure are severe. The *ex parte* seizure provisions are discussed in greater detail below.  

C. **The DTSA in Action**

1. **Key Definitions**

The DTSA defines a trade secret as:

> [A]ll forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, programs, devices, formulas, designs, prototypes, methods, techniques, processes, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if – (A) the owner thereof has taken reasonable measures to keep such information secret and (B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through...

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27 Natalma M. McKnew & Emily I. Bridges, *I’ve Got a Secret... and I’m Willing to Use It!* Franchisors, Franchisees, and Trade Secrets, 36 Franchise L.J. 561, 564 (Spring 2017).


29 See Section III(c)(6), infra.
proper means by, another person who can obtain economic value from the disclosure or use of the information.\textsuperscript{30}

There are three key components to the trade secret definition.\textsuperscript{31} First, it must be kept secret. Second, the information must derive independent economic value from not being generally known. Third, the information must not be readily ascertainable through proper means.

Misappropriation is defined as “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” or “disclosure or use of a trade secret of another person” obtained through improper means.\textsuperscript{32}

Under the DTSA, improper means is defined as “includ[ing] theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means” and to expressly “not include reverse engineering, independent derivation, or any other lawful means of acquisition.”\textsuperscript{33}

2. **Injunctive Relief**

Injunctive relief is specifically authorized under the DTSA.\textsuperscript{34} A few aspects of injunctions pursuant to the DTSA are worth noting. First, a trade secret owner can place conditions on future employment, but cannot prevent employee mobility. Second, the DTSA neither specifically endorses nor explicitly excludes the “inevitable disclosure doctrine.”\textsuperscript{35} Third, the DTSA recognizes that a reasonably royalty, rather than an injunction, may be appropriate under exceptional circumstances.\textsuperscript{36}

3. **Damages**

Money damages are specifically authorized under the DTSA.\textsuperscript{37} Pursuant to the remedy provisions of the DTSA, a trade secret owner proving its claim may recover actual losses, as well as non-duplicative unjust enrichment. A reasonable royalty may be recovered as a remedy of last resort.

\textsuperscript{30} 18 U.S.C. § 1839.
\textsuperscript{31} 18 U.S.C. § 1839(3).
\textsuperscript{32} 18 U.S.C. § 1839(5).
\textsuperscript{33} 18 U.S.C. § 1839(6)(A), (B).
\textsuperscript{34} 18 U.S.C. § 1836(b)(3)(A).
\textsuperscript{35} The inevitable disclosure doctrine holds that a party possessing trade secrets or other proprietary and confidential information cannot reasonably perform certain jobs for competitors without inevitably disclosing or making improper use of the trade secrets or other confidential information. See, e.g., PepsiCo, Inc. v. Redmond, 54 F.3d 1262, 1269 (7th Cir. 1995). The doctrine is not universally recognized in all states.
\textsuperscript{36} 18 U.S.C. § 1836(b)(3)(A)(iii) (providing that a court may “in exceptional circumstances” enter an order “that conditions future use of the trade secret upon payment of a reasonable royalty for no longer than the period of time for which such use could have been prohibited”).
Additionally, a trade secret holder may recover exemplary damages for willful and malicious misappropriation. A prevailing party may also recover attorneys’ fees for bad faith conduct.

4. Protection of Trade Secrets in Court Filings

Recognizing the confidentiality of the underlying subject matter (i.e., putative trade secrets), the DTSA sets forth specific provisions for the protection of trade secrets in court filings.

5. Statute of Limitations

The DTSA contains a three year statute of limitations, with accrual of the limitations period running from when the misappropriation is discovered or reasonably should have been discovered through the exercise of reasonable diligence. Of course, given the importance of the issues at stake and the need to act promptly in order to avoid arguments of undue delay that may undermine the trade secret holder’s irreparable injury argument, most trade secret holders will commence actions within days or weeks of discovering misappropriation. For statute of limitations purposes, the DTSA provides that a continuing misappropriation constitutes a single claim of misappropriation.

6. A Closer Look at Ex Parte Seizures

As noted above, the DTSA includes the potential remedy of ex parte seizures of trade secrets that have allegedly been misappropriated. Given the potential for abuse and the potential harm that could result from an improper seizure, the DTSA appropriately establishes rigorous requirements that a party must satisfy to obtain an ex parte seizure order, and also provides for severe consequences when a party obtains an ex parte seizure which is later found to have been improperly granted.

A party seeking an ex parte seizure faces a high burden. Most parties understand the high hurdles associated with obtaining temporary injunctive relief, which is viewed as an “extraordinary remedy” and requires a demonstration of likelihood of success on the merits, a demonstration of irreparable injury, establishing that the balance of harms favors the party seeking an injunction, and showing that the public interest favors an injunction.

However, for a party seeking an ex parte seizure, the DTSA elevates those exacting requirements. First, the party seeking an ex parte seizure must demonstrate that a temporary

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restraining order or preliminary injunction would not be an adequate remedy because the defendant would not comply.\textsuperscript{45} Second, the party must demonstrate not only irreparable injury, but "immediate" irreparable injury.\textsuperscript{46} Third, the party must establish that the balance of harms favors the plaintiff over the defendant.\textsuperscript{47} Fourth, the plaintiff must establish that the balance of harms substantially favors the plaintiff over third parties.\textsuperscript{48} Additionally, the party seeking the seizure must demonstrate that it is likely to show that the information is a trade secret and that either: (a) the misappropriation was done through improper means; or (b) there was a conspiracy to use improper means to misappropriate.\textsuperscript{49} These factors equate to heightened versions of the standard injunction factors.

The DTSA also requires additional factors that are not common to most other requests for injunctive relief. The plaintiff must show that the defendant is in possession of the trade secret information sought to be seized, as well as identify the location of the information.\textsuperscript{50} It also must describe the property to be seized with particularity.\textsuperscript{51} Consistent with the fact that the request is being made on an ex parte basis, the plaintiff must show that the property sought to be seized would be destroyed, moved, hidden, or made inaccessible if the defendant was notified, as well as establish that it did not publicize the requested seizure.\textsuperscript{52}

The DTSA also includes rigorous requirements with respect to the form of any seizure order. First, the order must set forth detailed findings of fact and conclusions of law.\textsuperscript{53} Second, the order must effect the narrowest seizure of property permissible.\textsuperscript{54} Third, the seizure must be conducted in a manner that minimizes any business interruption of both third parties and the legitimate operations of the defendant.\textsuperscript{55}

The order must also satisfy additional requirements specified in the DTSA. An accompanying order must protect any seized property from disclosure.\textsuperscript{56} It also must prohibit access by the plaintiff or defendant, or, if access is granted to plaintiff or defendant, it must set forth appropriate protective measures.\textsuperscript{57} The order should include provisions that prevent undue damage to the defendant or third parties until a hearing can be held.\textsuperscript{58} The order should also provide guidance to law enforcement officials, including the hours during which the seizure may take place and whether force may be used to access locked areas.\textsuperscript{59}

\textsuperscript{52} Id.
Following issuance of the seizure order, the DTSA requires that a hearing be held promptly with respect to the seizure.\textsuperscript{60} The DTSA includes provisions governing the obligations and rights of the parties both before and at the hearing.\textsuperscript{61} The hearing must be held not later than seven days after issuance of the seizure order, unless the defendant or third parties consent to another date.\textsuperscript{62} Even before the hearing date, the defendant or impacted third parties may move to dissolve or modify the seizure order.\textsuperscript{63} The court must protect the defendant from publicity in connection with the hearing.\textsuperscript{64}

The DTSA also includes various provisions that specifically cover the disposition of materials seized pursuant to the seizure order.\textsuperscript{65} The seized materials are to be taken into custody of the court, where they are to be secured from physical and electronic access.\textsuperscript{66} For electronic information that is seized, it must be held on a storage medium that is insulated from connection to a network or the Internet prior to the hearing.\textsuperscript{67} Additionally, the DTSA calls for the protection of the confidentiality of seized materials that are unrelated to the seized trade secret information.\textsuperscript{68} A special master may be appointed to locate and isolate information appropriately seized as putative trade secret information and to facilitate the return of unrelated property and data to the defendant.\textsuperscript{69} Parties or third parties may move for encryption of seized data, and may specify the desired encryption method.\textsuperscript{70}

In recognition of the harm that may result from improper seizures and the risk that parties could seek to use the procedure to inflict harm on their competitors, the DTSA includes significant remedies in the event of improper seizures. In the event of a wrongful or excessive \textit{ex parte} seizure, the impacted party may pursue a damages claim for lost profits, the cost of materials seized, loss of good will, punitive damages, attorneys’ fees, and prejudgment interest.\textsuperscript{71} The DTSA specifically provides that the security posted by a plaintiff in connection with the seizure shall not operate as a limit on the potential recovery of an affected party.\textsuperscript{72}

The \textit{ex parte} seizure provisions establish an important potential remedy where a party’s trade secrets have been misappropriated. However, given the severe consequences to a party who improperly obtained a seizure, parties will need to carefully consider the benefits and potential costs before pursuing such a remedy.

\textsuperscript{60} 18 U.S.C. § 1836(b)(2)(F).
\textsuperscript{61} Id.
\textsuperscript{63} Id.
\textsuperscript{64} 18 U.S.C. § 1836(b)(2)(C).
\textsuperscript{65} 18 U.S.C. § 1836(b)(2)(D).
\textsuperscript{68} 18 U.S.C. § 1836(b)(2)(D)(iii).
\textsuperscript{69} 18 U.S.C. § 1836(b)(2)(D)(iv).
\textsuperscript{70} 18 U.S.C. § 1836(b)(2)(H).
\textsuperscript{72} Id.
7. Immunity and Anti-Retaliation under DTSA

A person is immune from liability under the DTSA and state trade secret laws for disclosure of a trade secret when the trade secret is disclosed in confidence to a federal, state, or local government official, or an attorney solely for purposes of reporting or investigating a suspected violation of the law.\(^{73}\) Likewise, there shall be no liability when a trade secret is disclosed in a complaint or other judicial filing made under seal.\(^{74}\) If an employee files a lawsuit against his or her employer relating to the employer's retaliations against the employee for reporting a suspected violation of law, the employee has the right to provide the trade secret information to his or her attorney and to the court. Any trade secret documents must be filed under seal, and the employee cannot disclose the trade secrets, except pursuant to a court order.\(^{75}\)

8. Employee Notices

Employers have certain notice obligations with respect to the immunity provisions under the DTSA. They must include notice of the immunity provisions in any employment agreement that governs the use of trade secret or other confidential information, or the agreement must contain a cross-reference to such a notice that is included in the employer's policy document discussing the employer's reporting policy for a suspected violation of law.\(^{76}\)

If the employer does not comply with the notice requirement, it will be precluded from obtaining exemplary damages or attorneys' fees in an action against an employee under the DTSA.\(^{77}\) The notice requirement applies to agreements that are entered into or updated after the DTSA's enactment date.\(^{78}\) For purposes of the notice requirement, "employee" includes contractors or consultants.\(^{79}\) As discussed in more detail below, this requirement should not apply to agreements between franchisors and franchisees. It does, however, apply to agreements between franchisors and their employees, as well as to agreements between franchisees and their employees.

IV. BRIEF OVERVIEW OF UTSA AND STATE STATUTES

A. Overview of the UTSA

The Uniform Trade Secrets Act ("UTSA") was promulgated by the National Conference of Commissioners on Uniform State Laws ("NCCUSL") in 1979. Several amendments and revisions to the UTSA were approved the NCCUSL in 1985 and recommended for enactment.\(^{80}\) The UTSA was drafted to codify "the basic principles of common law trade secret protection.\(^{81}\)

\(^{75}\) 18 U.S.C. § 1833(b)(2).
\(^{80}\) Nat'l Conference of Comm'r's on Unif. State Laws, Uniform Trade Secrets Act with 1985 Amendments, approved and recommend for enactment in all states at the 94th Annual Conference in Minneapolis, Minnesota (Aug. 2-9, 1985).
\(^{81}\) Id., prefatory note.
Prior to promulgation of the UTSA, and state enactments of the UTSA, actions to protect trade secrets were largely governed by the common law as reflected in Section 757 of the Restatement of Torts. In applying the state enactments of the UTSA, many courts continue to apply the guidance contained in Section 757.82

The UTSA has been viewed as creating both substantive and procedural components in defining trade secrets.83 The UTSA defines a trade secret as:

[I]nformation, including a formula, pattern, compilation, program, device, method, technique or process, that (i) derives 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, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.84

The substantive component of the definition focuses on the value and competitive advantage afforded by the information. The procedural component focuses on the steps taken by the owner to maintain the secrecy of the information.

The UTSA, as enacted by various states, moved trade secret protections from purely common law concepts to more code-based enforcement. Indeed, many jurisdictions have provided that their state's enactment of the UTSA has displaced all non-contractual trade secret claims.85

B. Variations in State Trade Secret Laws

1. Forty-Eight States Have Enacted Versions of the UTSA

Forty-eight states and the District of Columbia have enacted a trade secrets law modeled on the UTSA. Only Massachusetts and New York have not enacted a version of the UTSA. However, notwithstanding that the "U" is supposed to stand for "uniform," the state enactments have not precisely followed that principle. "Variations of the UTSA formed a patchwork of protection for trade secrets, and . . . consistency among the states as to their scope and application varies--sometimes drastically so."86

As noted above, the NCCUSL first approved the UTSA for enactment in all states in 1979, then subsequently approved an amended version in 1985. Some states enacted the

82 See, e.g., Milgrim § 1.01(2) n.8 (collecting cases).
83 Milgrim § 1.01.
84 UTSA § 1.
85 See, e.g., 360 Mortgage Group, LLC v. Homebridge Financial Services, Inc., Case No. A-14-CA-00847-SS, 2016 WL 900577, at *8 (W.D. Tex. March 2, 2016) (holding that the Texas Uniform Trade Secrets Act pre-empted civil claims for misappropriation, other than contract claims); TEX. CIV. PRAC. & REM. CODE § 134A.007(a) (stating that the act "displaces conflicting tort, restitutionary, and other laws of [Texas] providing civil remedies for misappropriation of a trade secret"); VA. CODE ANN. § 59.1-341(A) (same). But see Ala. Code § 8-27-6 (stating that the provisions of its enactment of the UTSA "that are inconsistent with the common law of trade secrets supersede the common law; otherwise, they should be construed to be consistent with the common law of trade secrets").
86 McKnew & Bridges, supra note 38, at 562-63.
language approved in 1979. Others enacted the language approved in 1985. The enactments in Illinois and Michigan included language from both versions. More importantly, many states adopted only portions of a version of UTSA or modified the portions they enacted. This led to a lack of consistency in the state laws governing trade secret misappropriation, with New York and Massachusetts enacting no law and continuing to apply their common law on trade secrets. Layered on top of the varying UTSA enactments are differences that have arisen from case law interpreting the various statutes.

Accordingly, whether information qualifies as a protectable trade secret may vary from state to state under their respective enactments of the UTSA. The extent to which temporary or preliminary injunctive relief is available to protect trade secrets also varies among the states. "Remedies may also vary from state to state: enhanced damages may not be available, attorneys’ fees may not be recoverable, and permanent injunctive relief may or may not be an accepted remedy." 87

2. Definitions of Trade Secrets and Misappropriation

Due to the varying enactments and the diverging case law, what constitutes a trade secret in one state may not qualify as a trade secret in other states. For statutes that are supposedly derived from a uniform model, the very definition of "trade secret" is surprisingly varied among the states. Indeed, the definitions in some states are in direct conflict with the definitions in other states. For example, while the Nevada law requires that information not be readily ascertainable "by the public or any other persons" through proper means, North Carolina's act specifically provides that "[t]he existence of a trade secret shall not be negated merely because the information comprising the trade secret has also been developed, used, or owned independently by more than one person..." 88

Even where the various state definitions do not facially conflict, there are numerous material differences in the definitions of trade secrets that could lead to certain information qualifying (or not qualifying) as a trade secret in a particular state, while the opposite result would obtain in most other jurisdictions. For example, Oregon and California enacted definitions of trade secret that eliminated any requirement that the putative trade secret not be readily ascertainable. 89 The practical effect of such deletion is that in Oregon and California information that has not yet been discovered could be a trade secret, even if it is readily ascertainable. 90 The Alabama Trade Secrets Act uniquely requires that information must have "significant economic value" to be considered a trade secret. 91 Idaho specifically includes "computer program" in its definition of trade secret. 92 While computer programs may qualify as trade secrets in many other states as well, in Idaho, they are only protectable trade secrets if

87 Id., at 561.
90 ABBA Rubber Co. v. Sequaist, 235 Cal. App. 3d 1, 21, 286 Cal. Rptr. 518 (1991) ("[U]nder California law, information can be a trade secret even though it is readily ascertainable, so long as it has not yet been ascertained by others in the industry.").
there is “prominently displayed a notice of copyright, or other proprietary or confidential marking, either within or on the media containing the information.”

Just as information may qualify as a trade secret under one state’s law, but not under the laws of one or more other states, certain actions may constitute misappropriation in one state but not in others. For example, Connecticut’s statute specifically provides that “searching through trash” constitutes “improper means” and may, therefore, constitute misappropriation. In other states, however, discarding documents containing putative trade secret information may destroy any secrecy claim, thereby precluding a finding of misappropriation. Iowa’s statute eliminated the phrase “without express or implied consent” from its definition of “misappropriation” and instead requires a defendant to plead express or implied consent as an affirmative defense. Iowa is the only state with such a requirement. As another example, in Alabama, a person who received misappropriated information innocently cannot be found liable for misappropriation, even if the recipient later learns that such information was a trade secret.

3. Statutes of Limitations

While a uniform statute of limitations was one of the goals of the UTSA, that goal was not realized either with respect to the time period or with respect to treatment of continuing misappropriations. The UTSA contains a three-year statute of limitations. The state enactments have statutes of limitations ranging from two years to five years, with at least nine states enacting statutes of limitations for other than three years. None of Alabama, North Carolina or Pennsylvania enacted the UTSA’s provision that a continuing misappropriation would constitute a single claim for statute of limitations purposes.

4. Exemplary DAMAGES

The states took a variety of approaches with respect to exemplary damages. Arkansas, Louisiana, Michigan, and Nebraska did not include provisions providing for exemplary damages. Rather than allowing exemplary damages of up to twice the amount of actual damages, as set forth in the UTSA, Colorado limited exemplary damages to no more than the amount of actual damages. Ohio went the opposite direction, authorizing exemplary damages up to three times the amount of actual damages. North Carolina and Mississippi permit exemplary damages and do not specify any limit. Virginia allows exemplary damages up to twice the amount of

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93 Id.
96 Iowa Code Ann. § 550.5.
97 Ala. Code, § 8-27-3, cmt. (“Unlike Restatement Section 758(b), proper appropriation without notice of an earlier misappropriation cannot be misappropriation under the statute even if subsequent notice is given. That is, one who loses a trade secret has no recourse against one who innocently receives the trade secret. The sole recourse is against the misappropriator.”).
100 Ohio Rev. Code Ann. § 1333.63(B).
101 N.C. Gen. Stat. § 66-154(c); Miss. Code Ann. § 75-26-6(2).
damages award, but capped at $350,000. The burden of proof for recovering exemplary damages is not uniform either.

5. **Attorneys' Fees**

Similarly, a party's ability to recover attorneys' fees varies among the state statutes. While the UTSA includes a provision addressing attorneys' fees, none of Idaho, Missouri, Nebraska, or Alaska enacted that provision. Vermont altered the provision by calling for attorneys' fees and costs to be awarded to a substantially prevailing party. The UTSA did not define terms such as "bad faith" and "willful and malicious" in the model attorneys' fee provision, and various states have defined those terms differently, either through specific definitions added to their statutory enactments or through case law decisions.

V. **COMPARISON OF KEY PROVISIONS OF THE DTSA AND THE UTSA**

A. **Criminal Context of the DTSA**

As discussed above in Section III.A, the DTSA was enacted as an amendment to the EEA. The EEA, as originally enacted, provided criminal penalties against persons who were found to have misappropriated trade secrets. Because the DTSA was enacted as an amendment to the EEA, it carried forward many of the original definitions from the EEA, which were crafted in the context of the criminal penalties. In contrast, the UTSA related to purely civil remedies and was designed "to create a uniform business environment that created more certain standards for protection of commercially valuable information."

B. **Definition of Trade Secrets**

There are both minor and significant differences in the UTSA and DTSA definitions of trade secrets. On the minor end, the DTSA requires that the owner have taken "reasonable measures" to keep the information secret, while the UTSA only requires "efforts that are reasonable under the circumstances to maintain its secrecy." Given that the drafters of the DTSA were aware of the language of the UTSA, a question arises as to the significance of the omission of the phrase "under the circumstances" in the DTSA. Did the drafters intend the test of reasonable efforts at protection to be more objective than under the UTSA? Less than 18 months after the effective date of the DTSA, this remains an open question.

The more significant textual difference relates to the more extensive description of information that may constitute a trade secret under the DTSA. Notably, the DTSA definition of trade secret includes terminology that expressly recognizes the increasingly electronic and computer-based nature of key business and proprietary information. Of course, because the forms of information that may constitute a trade secret under the UTSA is a non-exhaustive list, cases may well determine that the definitions under the DTSA and UTSA are functionally equivalent. While courts have recognized that the definitions of the term "trade secret" differ between the DTSA and the UTSA, such differences have not yet been found determinative as to

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whether particular information qualifies as a trade secret under the DTSA when compared with a state enactment of the UTSA. Nevertheless, a party seeking to protect its trade secrets should be cognizant of the different definitions of trade secrets in determining what claims it will file. This is particularly true when there may be close calls on some of the definitional requirements for the trade secrets at issue.

C. Proper/Improper Means of Obtaining Trade Secrets

The DTSA and the UTSA take inverse approaches to addressing the means by which the acquisition of trade secrets may be found unlawful. The UTSA took the approach of specifically defining actions that constitute "proper means" of obtaining information. Specifically, it defined proper means as including:

(1) Discovery by independent investigation;

(2) Discovery by "reverse engineering," that is, by starting with the known product and working backward to find the method by which it was developed. The acquisition of the known product must, of course, also be by a fair and honest means, such as purchase of the item on the open market for reverse engineering to be lawful;

(3) Discovery under a license from the owner of the trade secret;

(4) Observation of the item in public use or on public display;

(5) Obtaining the trade secret from published literature.107

By comparison, the DTSA does not include a definition of "proper means," but instead defines "improper means" and specifically excludes "reverse engineering, independent derivation, or any other lawful means of acquisition."108 Accordingly, it is possible that a means of obtaining information could be found to violate the DTSA, but not the UTSA, or vice-versa. Whether or not this theoretical circumstance comes to pass will likely be determined as the case law on the DTSA develops.

D. Injunctive Relief

Injunctive relief is available to prevent actual or threatened misappropriation under both the DTSA and the UTSA. Courts have generally recited the same standard four-factor test for injunctive relief in assessing whether to grant an injunction under the DTSA or a state enactment of the UTSA.109 "In fact, many of the courts that have addressed [motions for preliminary injunctive relief] in a piggybacked case asserting both DTSA and state UTSA claims

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107 Comment, UTSA § 1(1).
109 Those four well-known factors are likelihood of success on the merits, irreparable harm, balancing of the respective equities, and the public interest. See Winter, supra note 54, 555 U.S. at 20.
do not specifically associate the standard with one or the other statute."¹¹⁰ Nevertheless, practitioners should bear in mind that cases for injunctive relief under a state trade secret law brought in state court could have different injunctive relief standards than DTSA cases brought in federal court, and those differences may be outcome determinative.¹¹¹

However, there are some potential differences in injunctions sought under the DTSA as compared with injunctions sought under the UTSA. First, relying upon the significance of the DTSA’s enactment as an amendment to the EEA, some courts have found that the public interest factor is essentially satisfied by the fact that Congress established criminal penalties under the EEA, which demonstrated an impact on the interest of the public at large, as compared with the more specific interests of the parties reflected in the private civil action.¹¹² Second, at least one court, applying a Tenth Circuit rule that “excuses irreparable harm . . . when the evidence shows that a defendant is or will soon be engaged in acts or practices prohibited by statute, and that the statute itself provides for injunctive relief to prevent such violations,” has short-circuited the irreparable injury requirement by finding that it “automatically” weighs in the trade secret holder’s favor based upon the referenced rule.¹¹³ However, this jurisprudence would appear to apply equally to a claim under the UTSA, so it is not clear whether this is a difference between the two statutes with respect to injunctions.¹¹⁴

There are also three primary textual differences in the injunctive relief sections of the DTSA and the UTSA. First, the DTSA includes a requirement that an injunction order may not: (a) prevent a person from entering into an employment relationship and “that conditions placed on a person’s employment must be based upon evidence of threatened misappropriation and not merely on the information the person knows;” or (b) conflict with an applicable State law that prohibits restraints on lawful professions, trades, or businesses.¹¹⁵ Second, the DTSA excludes language from the UTSA providing that “[u]pon application to the court, an injunction shall be terminated when the trade secret has ceased to exist, but the injunction may be continued for an additional reasonable period of time in order to eliminate commercial advantage that otherwise would be derived from the misappropriation.”¹¹⁶ Third, the DTSA excludes language from the UTSA specifically describing “exceptional circumstances,” which may warrant the payment of a reasonable royalty, to “include, but [not be] limited to, a material and prejudicial

¹¹⁰ McKnew & Bridges, supra note 38, at 569.

¹¹¹ "In a civil action where the plaintiff seeks a preliminary injunction, the selection of a state or federal court may determine the success of the motion for temporary relief. The reason is simple: state and federal courts frequently apply differing standards to such preliminary motions." Arthur D. Wolf, Preliminary Injunction Standards in Massachusetts State and Federal Courts, 35 W. New Eng. L. Rev. 1, 2 (2013).

¹¹² Earthbound, at *10 (finding that the EEA’s “criminal penalties for misappropriation of trade secrets . . . demonstrate] Congress’s belief that such conduct is harmful not only to the individual or entity whose secrets are purloined, but also to the public”); Getty Images v. Motamedi, No. 2:16-cv-1892, 2016 WL 7321133 (W.D. Wash. Dec. 16, 2016) (relying solely upon the DTSA itself in finding the public interest favored an injunction).


¹¹⁴ This approach also appears to be in tension with the Supreme Court’s holding, in the context of a patent infringement case, that a party seeking an injunction must satisfy the “traditional four-factor framework the governs the award of injunctive relief,” rather than being presumed to be entitled to injunctive relief. eBay Inc. v. MercExchange, LLC, 547 U.S. 388, 394 (2006). See also Scott McIntosh & Jonathan Labukas, To Presume, or Not to Presume, Irreparable Injury in Trademark Disputes Involving Franchises Following eBay and Winter, 36 Franchise L.J. 43, 45 (Summer 2016).


¹¹⁶ UTSA § 2.
change of position prior to acquiring knowledge or reason to know of misappropriation that renders a prohibitive injunction inequitable."\textsuperscript{117}

E. Seizure Provision

As discussed above in Section III.C.6, the DTSA includes detailed provisions relating to an \textit{ex parte} seizure remedy. The UTSA does not include any comparable seizure provision and no state enactment of the UTSA includes such a seizure provision.

F. Damages and Remedies

Aside from the \textit{ex parte} seizure remedy which is only available under the DTSA, the damages and remedy provisions of the DTSA and the UTSA are comparable. Both provide that a trade secret owner may recover actual damages, as well as non-duplicative unjust enrichment.\textsuperscript{118} Both authorize awards of exemplary damages of up to two times the amount of compensatory damages in the event of willful and malicious misappropriation.\textsuperscript{119} Additionally, the DTSA and the UTSA both authorize recovery of damages in the form of a reasonable royalty under specified circumstances.\textsuperscript{120} Finally, reasonable attorneys' fees may be recovered under both acts in the event of willful and malicious appropriation.\textsuperscript{121} Nevertheless, due to the variations in damages and remedies available under the various state enactments of the UTSA, trade secret owners should consider the potential for different remedies, or standards for obtaining the desired remedies, under the DTSA and the applicable state trade secret law.

G. Federal Jurisdiction

As noted above, federal subject matter jurisdiction exists for claims brought under the DTSA.\textsuperscript{122} Accordingly, all claims under the DTSA may be brought in federal court. A party asserting a claim under a state trade secret law would only be able to bring their claim in federal court if it could establish federal diversity jurisdiction requirements.\textsuperscript{123} While a party would have a strong argument that any injunctive relief sought under a state trade secret law has a value in excess of $75,000,\textsuperscript{124} the monetary threshold could pose an obstacle to bringing some claims in federal court. More importantly, a party may be precluded from bringing their trade secret claims in federal court due to a lack of diverse citizenship. Even where the parties have diverse citizenship, a defendant would not be able to remove to federal court if a plaintiff elected to bring the state law trade secret claim in a state where a defendant is domiciled.\textsuperscript{125}

\hspace*{1em} \textsuperscript{117} UTSA § 2(b).

\hspace*{1em} \textsuperscript{118} UTSA § 3; 18 U.S.C. § 1836(b)(3)(B).

\hspace*{1em} \textsuperscript{119} UTSA § 3; 18 U.S.C. § 1836(b)(3)(C).

\hspace*{1em} \textsuperscript{120} UTSA § 3; 18 U.S.C. § 1836(b)(3)(B).

\hspace*{1em} \textsuperscript{121} UTSA § 4; 18 U.S.C. § 1836(b)(3)(D).

\hspace*{1em} \textsuperscript{122} 18 U.S.C. § 1836(c).

\hspace*{1em} \textsuperscript{123} 28 U.S.C. § 1332.

\hspace*{1em} \textsuperscript{124} See, e.g., \textit{Info. Strategies, Inc. v. Dumasch}, 13 F. Supp. 3d 135, 141-42 (D.D.C. 2014) ("Courts do not have to ascertain the value of injunctive relief precisely; so long as a plaintiff's pleadings amount to more than a 'formal allegation' that the relief is worth more than $75,000, that is sufficient." (citing \textit{Smith v. Washington}, 593 F.2d 1097, 1100-01 (D.C. Cir. 1978)). "Courts have looked to the 'nature and scale' of the plaintiff's business when estimating the value of trade secrets for jurisdictional purposes." \textit{Id.} at 143.

\hspace*{1em} \textsuperscript{125} 28 U.S.C. § 1442(b)(2).
VI. DTSA IN THE COURTS – EARLY CASE GUIDANCE

The legislative debate surrounding the DTSA defined issues that advocates and opponents of the DTSA viewed differently. Would the DTSA be a uniform, accessible, effective, and appropriate weapon against the malicious misappropriation of trade secrets? Or would the DTSA become big business’ cudgel against entrepreneurs and ex-employees to stifle competition?

Relatively few DTSA cases have been decided since the statute became effective. Most of the sparring to date has been at the temporary/preliminary injunction or dismissal stage. Thus, the opportunity for clarification has been extremely limited. Glimpses into potential development of the DTSA may be evident in these early cases, but the record is thus far silent on many controversial issues. For the franchise bar, it’s notable that none of the reported cases involve franchising in any substantive way. Equally notable is that, as widely anticipated, the DTSA has been added to the quiver of arrows that an ex-employer can wield against an ex-employee. Contrary to fears that the DTSA seizure remedy would run rampant, however, its use has been judiciously constrained.

A. DTSA Gatekeeping

1. Effective Date

As noted above, the DTSA became effective on May 11, 2016. An early and obvious question of applicability arose in Syntel Sterling Best Shores Mauritius Ltd. v. The Trizetto Group, Inc. Enactment of the DTSA prompted a motion by the plaintiff to add the claim. Although the actions described in the initial pleadings occurred prior to the DTSA’s effective date, the motion to amend was granted based on the plaintiff’s alleged continuing use of the purloined intellectual property. The Syntel case supports the proposition that prohibited conduct that began prior to the DTSA’s effective date but continues thereafter confers jurisdiction under the statute.

Subsequent cases appear to have taken a more nuanced approach, requiring distinct prohibited actions post-May 11, 2016 as a jurisdictional basis for application of the DTSA. A mere four days later, a federal court in Florida decided Adams Arms, LLC v. Unified Weapon Systems, Inc. The defendant there moved to dismiss the plaintiff’s DTSA claims, arguing that the alleged wrongful actions occurred before the effective date of the statute. Observing that the DTSA prohibits two kinds of misappropriation—acquisition of trade secrets and disclosure of trade secrets—the court concluded that while acquisition had occurred prior to the effective date

126 Allstate Ins. Co. v. Role, No. 3:16-cv-01432, 2016 WL 4191015 (D. Or. Aug. 7, 2016), involved enforcement of a non-compete and non-disclosure agreement against an ex-agent who did business exclusively under the Allstate brand. On a motion for preliminary injunction, the court did not prevent competition by the ex-agent, but required all confidential data to be returned to Allstate. Although Allstate’s Complaint alleged violations of both the Oregon version of the UTSA and the DTSA, the court did not appear to rely on the DTSA in fashioning preliminary relief. Despite its promising caption, Panera, LLC v. Nettles and Papa John’s Int’l, Inc., No. 4:16-cv-1181-JAR, 2016 WL 4124114 (E.D. Mo. Aug. 3, 2016), does not deal with any franchise-related issue, but with an IT specialist who wanted to leave Papa John’s for Panera.

127 See page 4 above.


of the DTSA, disclosure may have occurred subsequent to that date, including as a continuing violation under 18 U.S.C. § 1836(d). The motion to dismiss was therefore denied.\(^\text{130}\)

More recently, the court in Brand Energy & Infrastructure Services, Inc. v. Irex Contracting Group similarly differentiated between in/out prohibited actions – inbound acquisition of trade secrets and outbound use or disclosure of trade secrets.\(^\text{131}\) Misappropriation began in 2014, before the effective date of the DTSA, but the plaintiff alleged that the defendant accessed additional trade secret information after May 11, 2016. The defendant’s motion to dismiss was denied on that basis. Using a similar analysis, but with a different outcome, the court in Cave Consulting Group, Inc. v. Truven Health Analytics, Inc. searched the complaint for allegations describing distinct prohibited actions of acquisition, disclosure or use after May 11, 2016.\(^\text{132}\) Finding no such allegations, the court granted the defendant’s motion to dismiss.

The court in Adams Arms specifically declined to decide whether and to what extent an aggrieved plaintiff could recover for DTSA violations that began before the statute’s effective date.\(^\text{133}\) The Adams Arms case highlights a fundamental – and as of now unanswered – question: as a continuing violation, can recovery be had for effects before the effective date of the DTSA, or would recovery be limited to effects suffered after the statute’s effective date?

2. Standing

Two cases have addressed the issue of standing under the DTSA, both focusing on 18 U.S.C. § 1836(b)(1), which affords the “owner of a trade secret” a private cause of action for misappropriation. In HealthBanc Int’l, LLC v. Synergy Worldwide, Inc., the plaintiff alleged that defendant’s printed product labels constituted a disclosure of licensed trade secrets.\(^\text{134}\) The court held that while it appeared plaintiff may have been the licensor of the technology, it was not an owner and thus could not assert a claim under the DTSA.\(^\text{135}\) The court in Phyllis Schlafly Revocable Trust v. Cori reached a similar conclusion.\(^\text{136}\) The case involved misappropriation of a donor database by ex-employees, with the existence of related litigation in other states complicating matters. On plaintiff’s motion for a temporary restraining order, the court launched the usual TRO test, but stalled at the “likelihood of success” prong. Considering both the case at

\(^{130}\) Id. at *6. See also, Champions League, Inc. v. Woodard, No. 16 Civ. 2514 (RMB), 2016 WL 8193292 (S.D.N.Y. Dec. 15, 2016) (without defining the specific character of the alleged wrongful actions, the court dismissed, observing that the asserted actions occurred prior to the DTSA’s effective date; case adds little to DTSA jurisprudence, but who knew that someone tried to form a professional league of former NBA players?); Dazzle Software II, LLC v. Kinney, No. 16-cv-12191, 2016 WL 6248906 (E.D. Mich. Aug. 22, 2016) (without substantive analysis, the court granted a motion to dismiss, but with leave for plaintiff to amend after discovery into defendant’s conduct subsequent to May 11, 2016).


\(^{133}\) Syntel Sterling, 2016 WL 5338550 at *6.


\(^{135}\) Id. at *6.

bar and the other pending cases, whether the plaintiff was the “owner” of the alleged trade secrets was debatable.\textsuperscript{137} The Court denied the motion.

These unremarkable cases highlight an issue that may be especially pertinent to franchisors. Holding companies or parent or affiliated entities often own the intellectual property employed in a franchise system and license same to the franchising entity. The franchisor then sublicenses rights to franchisees to exploit the intellectual property consistent with the terms of the franchise agreement. In that structure, it appears the actual owner of the trade secret, rather than the franchisor, will be required to bring any DTSA claim. By contrast, in many states, trade secret licensees/sub-licensors have standing to take action against misappropriation under UTSA.\textsuperscript{138}

3. \textbf{Geographic Reach}

The international reach of the DTSA was addressed in \textit{T \& S Brass and Bronze Works, Inc. v. Slanina},\textsuperscript{139} a case in which the employer’s claim against its ex-employees was based in part on the defendants’ interactions with a company in the U.K. The defendants unsuccessfully argued that (a) actions outside the U.S. could not support DTSA claims; and (b) provisions of the preliminary injunction order could not prohibit them from engaging in activities outside the U.S. The court agreed with the magistrate’s recommendation that the DTSA “applies to conduct outside the United States in circumstances in which, as here, defendants are citizens or permanent resident aliens of the United States or organizations existing under the laws of the United States . . . .” Thus, the Court may enjoin Defendants from engaging in certain competitive conduct outside the United States under the [DTSA] regardless of the terms of [the defendant’s] non-compete provision.\textsuperscript{140}

4. \textbf{A Constitutional Challenge}

In addition to its attack on application of DTSA to actions occurring before the statute’s effective date, the defendants in \textit{Brand Energy & Infrastructure Services, Inc. v. Irex Contracting Group} challenged the DTSA on constitutional grounds.\textsuperscript{141} As applied retroactively, the defendants argued, it constituted an unconstitutional \textit{ex post facto} law. The court rebuffed the attempt, concisely summarizing the legislative history of the DTSA and analyzing the differences between it and the UTSA, particularly as to a statutorily expressed retroactive limitation.\textsuperscript{142}

\textsuperscript{137} Id. at 3-4.
\textsuperscript{138} Unsurprisingly, whether a licensee has standing, and whether that standing extends to both exclusive and non-exclusive licensees varies from state to state. See, e.g., \textit{Faveley Transp. USA, Inc. v. Wabtec Corp.}, 758 F. Supp. 2d 211 (S.D.N.Y. 2010) (exclusive licensee has standing to sue under New York law); \textit{DTM Research v. AT&T Corp.}, 245 F.3d 327 (4th Cir. 2001) (Maryland law; fee simple ownership not required for standing); \textit{Metso Minerals, Inc. v. FLSmidth-Excel, LLC}, 733 F. Supp. 2d 969 (E.D. Wis. 2010) (licensee has standing to bring trade secret misappropriation claim).
\textsuperscript{140} Id. at *12.
\textsuperscript{141} Supra, note 140.
\textsuperscript{142} Reciting the argument in more detail is beyond the scope of this paper, but the authors commend a review of the court’s interesting and comparatively concise analysis in \textit{Brand Energy}.
B. Proving a DTSA Violation

In its most straightforward application, proof of a DTSA violation must include (a) the existence of a trade secret, and (b) misappropriation of a trade secret that is (c) "related to a product or service used in, or intended for use in, interstate or foreign commerce." An overarching issue is the extent to which counts will use state UTSA jurisprudence as a source of DTSA guidance. Courts appear to be doing so thus far, decreasing the likelihood that the DTSA will mature into a nationwide unified trade secret statute.

1. A Trade Secret

As discussed above, the DTSA definition of trade secrets varies somewhat from that which appears in most state UTSA enactments. Unsurprisingly, whether the alleged purloined information constitutes a trade secret has been an issue in many DTSA cases. Divining whether a court addressing the existence of a trade secret is doing so under the DTSA or a state UTSA is often difficult to determine. Most cases piggyback DTSA and state UTSA claims, and relatively few courts have thus far specifically addressed definitional differences between the two statutes.

A trade secret issue that will interest any patent attorney was raised but not decided in *Primo Broodstock, Inc. v. American Mariculture, Inc.* Can genetic material carried by live shrimp constitute a trade secret under the DTSA or Florida’s version of the UTSA? The court denied the plaintiff’s motion for preliminary injunctive relief under both the DTSA or Florida’s version of the UTSA, but entered a limited injunctive order based on an alleged trademark infringement claim. Other DTSA cases have addressed trade secret status on more common grounds, all in the context of piggybacked DTSA and state UTSA claims. Thus far, courts assessing whether something is a trade secret often conflate the definitional issues under the DTSA and the UTSA.

*Free Country Ltd v. Drennen* is one such case. In that piggybacked DTSA/UTSA case, the court rejected trade secret status based on the nature of the information. As Judge Rakoff explained in that case, this is often a particularly bothersome issue in the context of “soft” information such as customer lists and pricing. The court focused not only on the internal steps the plaintiff had taken to protect the information — and indeed, the employees had signed non-disclosures and non-competees — but he factored in the realities of practice in the apparel industry and the impact of social media. The plaintiff’s customers were well-known apparel retailers, and can be easily found through Google and LinkedIn; even with a non-disclosure such publicly available information could not be a trade secret. Nor was the pricing information at issue a trade secret, as publicly available pricing information in the industry can signal the underlying pricing structure. Pricing might be a trade secret, Judge Rakoff acknowledged, if a company used some type of proprietary formula, like a “complex pricing or trading algorithm in a financial business.” Interestingly, while rejecting trade secret status for ordinary business information, including customers and pricing, Judge Rakoff acknowledged that a mass of the

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147 *Id.* at *4.
plaintiff’s information that one defendant downloaded, including sales information, and design and production packages for past, present and future business, was “a trade secret critical to plaintiff’s business.” These comments were linked directly to New York law, but the Judge Rakoff did not suggest that any differing interpretation would result under the DTSA.

In *M.C. Dean, Inc. v. City of Miami Beach*, the court rejected the alleged trade secret status of information that, according to city ordinance, could be used without restriction by the defendant. And trade secret status was similarly rejected for non-technical information in *Raben Tire Co., LLC v. McFarland*, where the plaintiff failed to sufficiently allege it had undertaken efforts to protect the data.

*Mission Mgmt. Corp. v. Blackbaud, Inc.* involved only business-to-business misadventures. Mission Management and Microedge, a company purchased by Blackbaud, participated in a joint project to develop an analytical database to assess the utility and likely effects of social programs. The parties negotiated at least two agreements, but only executed a letter of intent. The plaintiff alleged on information and belief that its proprietary “Outcomes Database” was subsumed into the “Outcomes” product offered by Blackbaud after it purchased Microedge. The plaintiff surmised, among other things, that one of Microedge’s purposes was to boost its value in Blackbaud’s purchase transaction based on the incipient release of the new joint database product. The defendant moved to dismiss the Illinois UTSA and DTSA claims asserted by the plaintiff. Of all the interesting issues that could be raised on a Rule 12(b)(6) motion based on these allegations, the only one that the court addressed was a fairly uninteresting one — whether the plaintiff adequately alleged the existence of trade secrets. Based on unsurprising prior Illinois UTSA cases, the court found that plaintiff had adequately alleged its trade secrets and denied the motion.

2. **Misappropriation**

The DTSA identifies multiple means of misappropriation: acquisition, disclosure, and use, any one of which may support a DTSA violation.

The distinction between acquisition, disclosure, and use allowed the plaintiff to seek relief under the DTSA in *Brand Energy & Infrastructure Services, Inc. v. Irex Contracting Group*. Although acquisition began in 2014 (prior to DTSA enactment), evidence of post-enactment use by the defendants supported application of the DTSA. The court was particularly precise in defining the distinction between the various forms of misappropriation.

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148 Id. at *6.
152 Id. at *5-6.
154 Supra, note 140.
155 Id. (citing the Adams Arms and Syntel Sterling cases, discussed above).
Similar approaches are reflected in *Cave Consulting Group, Inc. v. Truven Health Analytics, Inc.*\(^{156}\) and *Lifesize, Inc. v. Chimene.*\(^{157}\) In the *Cave Consulting* case, the court defined the three forms of "misappropriation" under the DTSA: acquisition, disclosure, and use. The court then looked to the plaintiff's allegations to determine whether any form of misappropriation occurred after enactment of the DTSA. The complaint alleged acquisition in 2014 and disclosure in a client meeting in 2014, both predating the DTSA. Plaintiff alleged as additional conduct "on information and belief" the use of the alleged confidential information in additional situations, but the court found this insufficient. The plaintiff failed to specifically allege that the defendant *used* the alleged trade secrets post-enactment; the court thus granted the defendant's motion to dismiss, though with leave to amend.

The facts in the *Lifesize* case were somewhat more complicated. The defendant there had been an employee of a company that merged, reorganized, was renamed and portions spun off. At various times during these events, the ex-employee had signed non-disclosure agreements. The plaintiff *Lifesize* was the penultimate employer of the defendant, and sued the defendant for trade secret misappropriation under both the DTSA and the Texas version of the UTSA. The defendant ex-employee moved to dismiss the complaint, asserting that he had not obtained the trade secrets through improper means. Denying the motion, the court pointed out that under the Texas UTSA (and by footnote reference under the DTSA), acquisition through improper means is not the only path to a violation – use or disclosure when one knew that she was under a duty not to do so, also violates the statutes.

3. **The Commerce Requirement**

A resourceful defendant in *Hydrogen Master Rights, Ltd. v. Weston* found success on a motion to dismiss a DTSA claim based not only on pre-enactment activity, but also based on the absence of any asserted nexus between the misappropriation and interstate or foreign commerce.\(^{158}\) The DTSA by its terms applies "if the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce."\(^{159}\) The case grew out of a hydrogen technology research and development partnership that turned sour. Although the facts alleged events spanning at least two continents, the court failed to detect "any nexus between interstate or foreign commerce and the [confidential data, hydrogen technology, or the agreements entered into by the parties]."\(^{160}\)

4. **Inevitable Disclosure?**

The doctrine of inevitable disclosure is recognized as a violation of the UTSA in certain states, but what might be its fate under the DTSA? The DTSA statutory language neither specifically endorses nor explicitly condemns the doctrine, and thus far only two courts have faced the issue. Neither court explicitly holds the inevitable disclosure is directly cognizable under the DTSA, but both courts permitted inevitable disclosure-based claims to survive in piggy backed DTSA and state UTSA claims.


\(^{159}\) 18 USC § 1836 (b)(1).

\(^{160}\) Id. at *10.
The Northern District of Illinois denied the defendant’s motion to dismiss DTSA and Illinois UTSA claims in Molon Motor and Coil Corp. v. Nidec Motor Corp. In so doing, the court held that the plaintiff ex-employer’s allegations that the ex-employee would inevitably disclose his former employer’s trade secrets in his new employment stated a claim under both the Illinois UTSA and the DTSA. The defendant new employer asserted a lack of misappropriation because the ex-employee lawfully acquired the information. In response, the plaintiff argued that the ex-employee’s actions around the time of his departure, including accessing and downloading information, indicated his intention to use the information in the future.

A less direct approach to the issue is exemplified by Free Country Ltd v. Drennen, in which the plaintiff asserted claims under the DTSA and the New York trade secret statute. In a detailed analysis, the court concluded that the plaintiff lacked sufficient evidence that the defendant ex-employee had wrongfully acquired or used the alleged trade secrets. Absent such evidence, only with a high probability that a defendant will inevitably disclose trade secrets might a violation lie under New York law. Significantly, the court did not cite the DTSA as an appropriate vehicle for an inevitable disclosure claim.

The DTSA mandates that any restrictions placed on a defendant “must be based on evidence of threatened misappropriation and not merely on the information the person knows.” At first blush, this language might be read as a criticism of the doctrine of inevitable disclosure. But the demarcation between “threatened misappropriation” and inevitable disclosure is indistinct in practical applications. In many DTSA cases, ex-employees learned protected information in the normal course of their employment, but then ceased that employment and took the ex-employee’s information to the next employer. Under these circumstances, it is reasonable to conclude that the ex-employee intended to use it in his or her new employment. While the ex-employee never said, “I threaten to use this,” the very act of collecting the information and exporting it to a location under the ex-employee’s control is circumstantial evidence of that intent. It is the post-employment action that evidences the threat and as at least one court has observed, a trade secret owner is not required to wait until the ex-employee actually discloses or uses the information; injunctive relief is appropriate to prevent those actions. That either is or flirts with the doctrine of inevitable disclosure.

A comment by the court in Earthbound hints at the possible application of the DTSA where disclosure is inevitable: irreparable harm (and a trade secret violation) may be evident “when the evidence shows that a defendant is or will soon be engaged in acts or practices prohibited by statute.”

The court in Molon Motor apparently accepted inevitable disclosure as cognizable under the DTSA, but query whether other federal courts in states whose UTSAs embrace the claim will likewise construe the DTSA. This sharply poised issue could frustrate the intent of the DTSA to serve as a uniform nationwide remedy for the theft of trade secrets.

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162 The case is discussed in greater detail above in Section VI(B)(1), supra.
164 Molon Motors, 2017 WL 1954531 at *5.
165 2016 WL 4418013 at *10.
C. **Temporary/Preliminary Relief**

Motions for preliminary or temporary relief have provided the bulk of DTSA jurisprudence thus far. In early applications for temporary or preliminary relief under the DTSA: (1) the DTSA has been used primarily against ex-employees; (2) preliminary relief has issued where the plaintiff has strong evidence and there are egregious facts; (3) courts have acted quickly; (4) seizure has not been granted; and (5) courts have carefully structured preliminary remedies.

Courts assessing motions for injunctive relief under UTSAs and the DTSA recite the same multi-part test, namely likelihood of success on the merits, irreparable harm, public interest and balance of the equities. Many of the courts that have addressed such motions in a “piggybacked” case asserting both DTSA and state UTSA claims, do not specifically associate the standard with one or the other statute. The DTSA does not specifically require any alternate test for the issuance of temporary or preliminary relief.

1. **The Preliminary Relief Analysis**

*Henry Schein, Inc. v. Cook* appears to be the first case filed under the DTSA. In round one, after the plaintiff tried to serve notice on the defendant, the court granted an *ex parte* TRO against the plaintiff’s ex-employee Cook with remarkable speed on June 10, 2016. Cook had resigned and become an employee of a competitor. Plaintiff Henry Schein, Inc. ("HSI") determined that as Cook left, she forwarded “a wide array of confidential and trade secret information" from her work email to her personal email, including "comprehensive, confidential HSI customer practice reports . . .," equipment inventory, price quotations and proposals in process. She also logged into the HSI system which updated these items and didn't return her laptop for two weeks. Additionally, she tried to access the HSI system a day after she resigned, unsuccessfully. When she returned her computer to HSI, she had tried to erase the emails she’d sent to herself. In addition to taking this information, Cook attempted to divert HSI customers to her new employer before her departure, even visiting customers and removing some HSI information from their businesses. Applying the usual test for injunctive relief, the court readily granted the TRO.

Round 2, a decision on whether a preliminary injunction should issue, occurred on June 22, 2016, less than two weeks later. On the DTSA claim, the court found a likelihood of success on the merits and concluded that HSI’s potential loss of relationships constituted irreparable injury. The ex-employee argued that she did not intend to use HSI’s information for personal gain, but the court held that her intent was irrelevant under both the DTSA and the state UTSA. The court continued the TRO as a preliminary injunction, but eliminated the portion of the TRO that prohibited Cook from soliciting HSI customers.

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167 By contrast, as discussed in greater detail below, the DTSA’s seizure remedy mandates a separate and more demanding standard.


169 Id. at 1079-80.


171 Id. at 10.

172 Although the court did not mention it, the elimination of the non-solicitation portion of the TRO appeared to be designed to comply with California’s prohibition on non-competes. This juxtaposition of the DTSA with state statutes,
The speed with which the judge acted in the Schein case, and the exceedingly short set of deadlines he imposed on the parties and a third-party forensic expert who had yet to be retained, were remarkable. Seizure was neither requested nor specifically granted, but under the rubric of expedited discovery the court ordered devices to be turned over to the forensic expert for imaging, the collected images to be provided to defense counsel, and defense counsel to begin producing the images to plaintiffs' counsel within approximately two weeks. Written discovery responses and complete production were required about one week later, and a preliminary injunction hearing was scheduled for June 21, 2016, less than one month following issuance of the TRO.  

Another notable DTSA opinion is Getty Images v. Motamedi, in which the court granted the plaintiff's motion for a TRO, expedited discovery, and issued a Hague Convention request a mere four days after the case was filed. Defendant Motamedi, a vice president at Getty Images, had signed a non-disclosure agreement and been apprised in writing of Getty's non-disclosure policies. Motamedi decided to join a former colleague in a new venture in the United Kingdom and compete against Getty. In preparation for her new venture, Motamedi emailed Getty confidential and trade secret data to the new company. Getty uncovered evidence of these transmissions and other questionable communications in the defendant's company email account and speculated that her non-company emails and her electronic devices would provide a "treasure trove" of damning information. As in other cases, the plaintiff's forensic evidence weighed heavily in the court's decision granting a TRO, expediting discovery and issuing the Hague Convention request.  

Engility Corp. demonstrates the value of pre-hearing factual development (particularly forensic evidence) and a well-conducted motion hearing. The facts were egregious. The defendant ex-employee's Daniel's, admissions and denials in the face of Engility's evidence, prompted the court to dismiss his testimony as incredible, and played a major role in the outcome. Engility is a defense contractor that provides hi-tech communications solutions to the U.S. military. As the "face" of Engility to U.S. military officials, Daniels was privy to a wide range of highly confidential information and had signed a confidentiality agreement. While still working for Engility, Daniels set up another company, intending to compete for the same business as Engility. Daniels gave notice to Engility and returned his company computer and additional information on a flash drive. But Daniels (as he finally admitted) kept some Engility trade secrets, offering varying and increasingly less believable explanations for his behavior. Company emails and computer and flash drive metadata indicated modifications and erasures after his departure date. Surveillance tapes also confirmed Daniels' tardy return of some company property.

especially in the area of remedies, appears more sharply (and with far more analysis) in Engility Corp., discussed in greater detail below.

173 It's worth noting that a different judge in the same court (Western District of Washington) handled another DTSA case in exactly the same way, including authoring some of the language that appears in the plaintiff's motion for TRO in Getty Images, discussed below, without attribution. See detailed discussion of Earthbound, below.


175 Id. at *1.

176 2016 WL 7034976.

177 Id. at 4-6.
In palpable understatement, the court wrote: "[Daniel's changing] testimony somewhat reduced Daniels' credibility in the court's eyes, but a later admission had an even more damaging effect."178 Daniels finally admitted that he hadn't erased the hard drives, so he had a complete copy of the flash drive even after he had supposedly returned everything. He nevertheless insisted that he had finally deleted everything and had given the drive to his lawyer.

On this evidence, the court had no difficulty issuing an injunction, even applying a "clear and unequivocal" standard of proof because of the extraordinary nature of a preliminary injunction.179 The court made short shrift of the likelihood of success factor, expressing disbelief in any of Daniels' testimony.180 Nor were the balance of harms or public interest elements difficult for Engility to satisfy.181 Irreparable harm was a different matter. Engility hadn't demonstrated irreparable harm with the specific factual support the court might have preferred. But, as noted above, the court concluded that the DTSA's provision for injunctive relief in the face of a violation satisfied the irreparable injury element, because the Tenth Circuit's test for injunctive relief "excuses irreparable harm . . . when the evidence shows that a defendant is or will soon be engaged in acts or practices prohibited by statute, and that statute itself provides for injunctive relief to prevent such violations."182 The DTSA authorized injunctive relief to prevent misuse of trade secrets, and the Colorado trade secrets act did likewise; the irreparable harm element of the test thus "automatically favor[ed] Engility."183

Engility had submitted a proposed preliminary injunction, which prohibited any use, disclosure or destruction of Engility information, and prohibited the defendants from accepting business from the affected Engility clients. The court agreed with the first two conditions, but found the non-compete provision worrisome. Could the injunction restrict competition by Daniels? The DTSA prohibits an injunction that prevents a person from entering into an employment relationship.184 but "employment relationship" does not encompass an outside contractor relationship. The DTSA also prohibits an injunction that would conflict with state non-compete laws.185 The court determined that Colorado law presumptively invalidates non-competes, but exempts from that prohibition contracts for the protection of trade secrets, which are enforced in Colorado to the extent necessary to protect trade secrets. Accordingly, the court thoughtfully crafted a non-compete in the preliminary injunction that restricted the defendants' ability to compete for business from Engility's targeted customers only.186

Earthbound Corp. v. MiTek, USA, Inc. is one of only a few cases that have applied the DTSA to business-to-business activities.187 In this case, however, the competitor relationship was coupled with an ex-employee's activities. Earthbound developed a proprietary Super-

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178 Id. at *6.
179 Id. at *7 (citing Greater Yellowstone Coal v. Flowers, 321 F.3d 1250, 1256 (10th Cir. 2003)).
180 Id. at *8.
181 Id. at *11-12.
182 Id. at 11.
183 Id. (citing 18 U.S.C. § 1836(b)(3)(A)).
Template, which manipulates "engineering calculations on load pressures, deflection and elongation, design methodology, product selection, inventory and pricing" in the plaintiff's business of providing "services and systems for earthquake tie-down and connections in building construction." Earthbound's sales arm was a third party, Intact Structural Supply, LLC ("ISS"). Personnel at ISS had broad access to Earthbound trade secret and confidential data, including the Super-Template, financial goals, strategic planning, sales projections and customer list. None of the ISS employees who were included as defendants in the action had signed confidentiality or non-compete agreements with Earthbound or with ISS.

MiTek had unsuccessfully tried twice to buy Earthbound, and in each case signed confidentiality agreements. During discussions regarding a possible purchase transaction, Earthbound disclosed the names of key ISS personnel to MiTek, along with an explanation of their position, knowledge and duties. The key ISS personnel subsequently decided to move to MiTek (after MiTek had offered them a signing bonus, which was paid while the employees were still employed by Earthbound). The employees didn't give notice to Earthbound until several months later, and incredibly, each asked to stay at Earthbound to transfer work to successors, notwithstanding that they were already on MiTek's payroll. Unsurprisingly, Earthbound did not agree. Each employee returned laptops and company phones to Earthbound, but the phones had been returned to factory settings (wiped) and all data had been removed from laptops, etc. Wiping phones and laptops, together with the employees' odd request that they be allowed to remain at Earthbound while on MiTek's payroll, raised Earthbound's suspicions. However, a customer telling Earthbound that it had received an unsolicited bid from MiTek for a job that it had planned to award to Earthbound, at a lower price than Earthbound, likely turned suspicion into belief. Earthbound's lawyer sent a cease and desist to MiTek and the ex-employees, demanding, among other things, a return of everything, non-use, etc. All defendants denied wrongdoing and refused to provide any information.

Earthbound engaged a forensic expert prior to filing its complaint. From Earthbound's records, she gathered a raft of information showing that one ex-employee in particular, both before and after giving notice to Earthbound, sent confidential information from his email to his wife's email, moved Earthbound files to his cloud storage or his DropBox account, inserted USBs on multiple occasions and downloaded files, and engaged in other questionable behavior. When confronted with this evidence, the employees didn't deny taking data, but instead argued that no one told them it was confidential or proprietary.

By the time Earthbound filed its complaint, in which it asserted both a DTSA claim and a Washington UTSA claim and a motion for temporary restraining order, it already had substantial evidence of misappropriation. This proved critical to the court's decision to grant the TRO. Citing primarily the Washington version of the UTSA, the court devoted many pages to explaining the evidence provided by the forensic expert, brushed away a weak defense, and entered an aggressive TRO that: (1) required the surrender of electronic storage means, hard drives, and devices for independent analysis by a third-party forensic expert; (2) mandated non-disclosure, non-use, and preservation of data; and (3) ordered defendants to give two-hour depositions prior to the PI hearing. The court observed that the misappropriation analysis would also support a violation of "the Economic Espionage Act, as amended by the Defend Trade Secrets Act" and that "[t]he EEA establishes criminal penalties for misappropriation of trade secrets ... [which] demonstrates Congress's belief that such conduct is harmful not only to the individual or entity whose secrets are purloined, but also to the public."  

188 Id. at *11-12.
189 Id. at *10.
In UTSA jurisprudence, each element of the TRO/PI test receives judicial attention. In early DTSA cases, however, several courts have cited the DTSA as grounds for truncating two elements: irreparable harm and public interest. In Engility Corp. v. Daniels, the court brushed over the "irreparable harm" inquiry, declaring that the element "automatically" weighs in the trade secret owner's favor, because the DTSA "by statute provides injunctive relief to prevent . . . violations." And in Earthbound, the court suggested a self-proving "public interest" element, observing that:

the [Economic Espionage Act, as amended by the DTSA] establishes criminal penalties for misappropriation of trade secrets . . . which demonstrates Congress's belief that such conduct is harmful not only to the individual or entity whose secrets are purloined, but also to the public . . . Theft of trade secrets, and allowing the thieves to retain and use the confidential information they purloined, undermines business development and stability; preventing such conduct is in the public's interest." By contrast, the court in Compulife Software, Inc. v. Newman, rejected the argument: "[T]he Court has not found any legal authority for the proposition that Compulife would be entitled to a presumption of irreparable injury . . ." One may understandably wonder whether this approach is consistent with the Supreme Court's decision in eBay v. MercExchange, in which the court declared, in the context of a patent infringement action, that the imposition of injunctive relief depends upon the application of the traditional four factor test and that harm may not be presumed. Regardless of the fate of the irreparable harm and public interest factors under the DTSA, its criminal roots may afford a trade secret owner a psychological advantage in any TRO/PI hearing. Note, for instance, the manner in which the court in Earthbound described the DTSA as "the Economic Espionage Act, as amended by the Defend Trade Secrets Act."

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190 These elements are: likelihood of success on the merits; immediate and irreparable harm that is not susceptible of monetary remedies, adverse effects on the resisting party; and the public interest.

191 No. 16-cv-2473, 2016 WL 7034976, at *11 (D. Colo. Dec. 2, 2016). The court did not rely totally on the DTSA, however. It cited Tenth Circuit jurisprudence, which "excuses irreparable harm . . . when the evidence shows that a defendant is or will soon be engaged in acts or practices prohibited by statute, and that the statute itself provides for injunctive relief to prevent such violations." Id.


194 547 U.S. 388, 392 (2006). Since its original pronouncement, the eBay holding has been applied to condemn "automatic" or presumptive grants of injunctive relief in many contexts. See, e.g., Monsanto Co. v. Geertsen Seed Farms, 591 U.S. 139, 130 S. Ct. 2743 (2010) (environmental case); PBM Products, LLC v. Mead Johnson & Co., 639 F.3d 111 (4th Cir. 2011) (trademark case); Salinger v. Colting, 607 F.3d 68 (2d Cir. 2010) (copyright case); Perfect 10, Inc. v. Google, Inc., 653 F.3d 976 (9th Cir. 2011); Ferring Pharmaceuticals, Inc. v. Watson Pharmaceuticals, Inc., 765 F.3d 205 (3d Cir. 2014) (trademark case); North American Medical Corp. v. Axiom Worldwide, Inc., 522 F.3d 1211 (11th Cir. 2008) (trademark case); Swarovski Aktiengesellschaft v. Building No. 19, Inc., 704 F.3d 44 (1st Cir. 2013) (trademark case); Novus Franchising, Inc. v. Dawson, 725 F.3d 885 (8th Cir. 2013) (franchise case).

195 Earthbound, supra at *10.
2.  **Provisional Remedies**

Remedies inconsistent with state law have already posed a potential problem to courts fashioning preliminary and permanent remedies under the DTSA. The DTSA addresses the issue, specifically barring injunctive relief that “conflict[s] with an applicable State law prohibiting restraints on the practice of a lawful profession, trade or business.”\(^ {196}\) The court in *Engility Corp.* deftly waltzed between the DTSA and the constraints of Colorado law in fashioning a remedy, ultimately devising one that appeared to the court to accomplish the purpose of the injunction while not running afoul of Colorado law.\(^ {197}\) In particular, the court determined that a blanket requirement that the defendants refrain from competing against Engility was inconsistent with Colorado law and narrowed the restriction to specific customers.\(^ {198}\)

In *T & S Brass and Bronze Works, Inc. v. Slanina*,\(^ {199}\) the defendant former employees challenged the court’s preliminary injunction order, claiming that it prohibited the defendants from entering into an employment relationship with specific individuals and entities, by requiring them to obtain court approval before entering into employment relationships in the food industry. This requirement, the defendants claimed, would as a practical matter preclude all such employment. The court disagreed. The requirement was not a blanket prohibition, but was fashioned to prohibit employment relationships that are competitive with T&S Brass “based on Defendants’ past behaviors.” The court also noted that the DTSA “expressly contemplated certain restrictions on employment.”\(^ {200}\)

Relief via temporary restraining orders or preliminary injunction has typically included restraints on personal actions by defendants. Indeed, as the court observed in *T & S Brass and Bronze Works, Inc. v. Slanina*,\(^ {201}\) the DTSA by its terms contemplates restrictions on employment.

D.  **Whistleblower Exemption**

Thus far, only one defendant has attempted to rely on the DTSA’s whistleblower exemption. In *Unum Group v. Loftus*, one of Unum’s employees, Loftus, was caught on camera on multiple occasions hauling documents in boxes out of its offices.\(^ {202}\) He finally returned a laptop, but no documents.

Loftus moved to dismiss Unum’s DTSA and UTSA claims, relying on the whistleblower protection provisions of DTSA.\(^ {203}\) But there was no indication that Loftus took any of the steps that a whistleblower would have taken; he admitted taking documents, and the only support for his whistleblower defense seemed to be his word. The court criticized and gave little credence to the clumsy effort. The court required Loftus to promptly turn over to the court all the necessary documents.

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\(^ {197}\) 2016 WL 7034976, at *11.
\(^ {198}\) *Id.*


\(^ {203}\) 18 U.S.C. § 1833(b).
documents he had removed, regardless of media; to destroy all other copies of the documents, even those in Loftus’ attorney’s possession and not to provide documents to others; Loftus was required to mirror his computer hard drive and flash drive; and Loftus and his lawyer were required to sign affidavits attesting to the completion of these tasks.\textsuperscript{204}

E. Protective Discovery and Seizure

During legislative hearings on the DTSA, several commentators expressed concerns regarding the potential disclosure of trade secrets, and reactions to those concerns found their way into the Act. Even prior to the DTSA, the Economic Espionage Act authorized courts to take “necessary and appropriate [action] to preserve confidentiality” and, in addition, imposed conditions on a court’s ability to order disclosure of trade secrets in litigation.\textsuperscript{205} When the DTSA was adopted, additional protective measures were included in the context of civil seizure.\textsuperscript{206} The \textit{Unum} case is notable for its discussion of the protective aspects of the DTSA. Although the plaintiff didn’t request, nor did the court expressly grant, seizure in \textit{Unum}, the court applied many of the protective measures authorized in 18 U.S.C. § 1836(b)(2)(D), specifically requiring that produced data be maintained by the court only, even to the exclusion of defense counsel.\textsuperscript{207}

While seizure under the DTSA has not been granted or analyzed in detail, it has been requested in at least one instance. In \textit{OOO Brunswick Rail Mgmt. v. Sultanov}, plaintiff OOO Brunswick requested the court enter a seizure order for the laptops and mobile phones in possession of a former employee.\textsuperscript{208} Rather than analyzing the DTSA’s seizure requirements, the court simply stated that seizure under the DTSA was unnecessary because it would order the former employee to deliver the devices to the court under Federal Rules of Civil Procedure Rule 65 at a scheduled hearing and ordered that the devices not be accessed or modified.\textsuperscript{209} Although the court mentioned the DTSA’s seizure remedy, it provides no guidance as to evidentiary requirements or other interpretation.

What little we can glean from the DTSA cases thus far suggests that, in applying the seizure remedy, courts will be inclined to act quickly, may force the parties to litigate on a fast track, and will be respectful of the trade secrets at issue. But does that answer the fears of commentators on either side of the legislative debate: will the DTSA have a chilling effect on ex-employees/entrepreneurs, with a higher price of entry and litigation? Is the weapon it provides to big business immense, while smaller entities will be discouraged (by price) from using it? Will the seizure remedy be abused? These questions await resolution, but a look at an analogous civil seizure remedy may provide some hints.

The DTSA’s seizure remedy was modeled after provisions in the Lanham Act, which allows seizures of counterfeit goods.\textsuperscript{210} Although generalization is dangerous, courts applying the Lanham Act seizure remedy have typically demanded strict compliance with the statutory requirements, and have ordered seizure (rather than injunctive relief) only where there is

\textsuperscript{204} \textit{Unum}, 2016 WL 7115967 at *4.
\textsuperscript{205} 18 U.S.C. § 1835(a).
\textsuperscript{206} 18 U.S.C. § 1836(b)(2).
\textsuperscript{207} \textit{Unum}, 2016 WL 7115967 at *4.
\textsuperscript{208} No. 5:17-cv-00017-EJD, 2017 WL 67119 at *2 (N.D. Cal. Jan. 6, 2017).
\textsuperscript{209} Id.
\textsuperscript{210} 15 U.S.C. § 1116(d).
evidence of the defendant’s prior disobedience of court orders. In Lorillard Tobacco Co. v. Bisan Food Corp., for instance, the district court refused to issue a seizure order, observing that the statute “contains rock solid requirements that I find are not met here.” In particular, the court found nothing to suggest prior disobedience on the part of the defendant. The Third Circuit affirmed, concluding that the plaintiff failed to demonstrate that “the person against whom seizure would be ordered . . . would destroy, move, hide or otherwise make such matter inaccessible to the court,” the same language that appears in the DTSA. However, in Dell v. Beligiumdomains, LLC, a Florida district court came to a different conclusion and issued a seizure order against alleged cybersquatters. The evidence sought to be seized was primarily electronic (making it easy to destroy), coupled with the court’s observation that cybersquatters have routinely ignored judicial proceedings, the defendants had no physical presence in Florida, and they used fictitious names and shell entities to shield their activities.

As in the DTSA, the Lanham Act seizure provision includes a penalty for bad faith or wrongful seizure. Where seizure has been implemented in bad faith or impermissibly against non-counterfeit goods, courts have awarded damages to the injured party. In Prince of Peace Enters, Inc. v. Top Quality Food Market, LLC, for example, a seizure order had issued and been executed. On a motion to dismiss, the court found the plaintiff did not have standing under the Lanham Act and much of the seized product was not counterfeit. It awarded damages to the aggrieved defendant based on the wrongful seizure, referring the issue of amount to the magistrate. Waco Int’l v. KHK Scaffolding Houston, Inc. also turned into a victory for the defendant. After a seizure that yielded many, perhaps mostly, non-infringing goods, the court dissolved the seizure order but entered a narrow injunction at the same time. The defendant’s counterclaim for wrongful seizure was successful, and the jury awarded damages in the form of attorneys’ fees. The appellate court affirmed.

VII. TRANSACTIONAL CONSIDERATIONS FOR FRANCHISORS ARISING FROM THE DTSA

A. Whether to Include Employee Notice in Franchise Agreements

Because the DTSA specifically provides that the immunity notice requirements apply to agreements with contractors and consultants, as well as employees, franchisors may be wondering whether they should include such notices in their franchise agreements. While reasonable minds may differ, on balance, the better approach is not to include them.

First, there is a textual argument that the notice requirement does not apply to franchisor-franchisee relationships, notwithstanding its application to contractors and consultants. Second, including such notices may be used as evidence that the franchisor

211 377 F.3d 313, 317 (3d Cir. 2004).
215 Id. at 394 & 396.
216 278 F.3d 523 (5th Cir. 2002).
217 Id. at 536-37.
218 18 U.S.C. § 1833(b)(4) (defining an “employee,” to whom notice must be provided, as including “any individual performing work as a contractor or consultant for an employer”).

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viewed its franchisees as employees, thereby lending support to employment claims and joint employment claims by franchisees and their employees. Third, most franchise agreements already contain provisions providing the benefits that would be lost under the DTSA due to failure to provide an immunity notice where one is required. For example, most franchise agreements contain provisions allowing the franchisor to recover its attorneys’ fees if it prevails in an action with its franchisee. 219 Franchisors may also be able to incorporate provisions in their agreements that would include comparable exemplary damages remedies relating to misappropriation of trade secrets. Accordingly, franchisors may be able to obtain many of the benefits of including the required notices through thoughtful contract drafting without increasing the risks of being considered to be the employer of its franchisees or its franchisees’ employees.

B. Identifying Trade Secrets

Franchise systems that own valuable trade secrets should consider performing a trade secret audit. The first step in such an audit entails identifying all potential trade secrets that the franchisor wants to protect as a trade secret. As a second step, the franchisor may want to perform a few searches on the Internet to confirm that the potential trade secrets are not “readily ascertainable” through Internet searching. While information available on the Internet is constantly expanding and information that is not currently readily ascertainable may later become so, it would be worthwhile to document the Internet searches performed with respect to any potential trade secrets as a demonstration that such information was not readily ascertainable at the time the owner identified it as a trade secret. For a third step, the franchisor should evaluate what measures it takes to preserve the secrecy of the trade secret information. 220 As a final step, to the extent a franchisor determines any potential gaps in the steps taken to maintain the secrecy of the trade secret information, those gaps should be remedied promptly.

C. Maintaining Secrecy

Under the DTSA, one of the definitional requirements of a trade secret is that “the owner thereof has taken reasonable measures to keep such information secret.” 221 Types of measures that can be taken include, but are not limited to, the following: (a) restricting access to only those who need to know the trade secret information; 222 (b) where the information is stored electronically, restricting access with secure password protection; 223 (c) clearly labeling trade

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220 A non-exhaustive list of measures that can be taken to protect the secrecy of trade secret information is included in Section VII.C below.


222 The more important the trade secret information is, the more protections should be taken to maintain its secrecy and restrict access. For example, in the context of KFC’s blend of 11 secret herbs and spices, the blends were created in two separate batches by two different companies, then later combined so that neither company would know the full recipe. This was found to be adequate efforts to maintain the secrecy under pre-DTSA applicable law. KFC Corp., 620 F. Supp. at 1172. For less important trade secret information, it may be permissible to allow franchisees to know the trade secret recipes provided that access is restricted to those who need to know, such as the franchise owner and the employees who use the recipes to prepare food. Publishing the recipes in a handbook that is distributed to all franchisee employees, include part-time cashiers, may be found to be inadequate.

223 For an in-depth discussion of procedures and policies that should be considered in connection with protecting electronic data and information as trade secrets, see Lockerby, et al., supra note 1, at 18-25.
secret information to distinguish such information from information that does not constitute a franchisor's trade secret information; (d) in training programs, emphasizing the importance of maintaining secrecy of trade secret information; (e) monitoring access to trade secret information; (f) performing exit interviews to ensure that all trade secret information has been returned or destroyed; and (g) using agreements that restrict access to, and proper use of, trade secret information. Because this element is frequently disputed in trade secret litigation, taking appropriate steps to maintain secrecy, and documenting such steps so as to be able to efficiently demonstrate the efforts taken, is very important.

D. Agreement Provisions that Enhance Trade Secret Claims

Franchisors should consider including in their franchise agreements acknowledgments by the franchisee of such information’s status as a trade secret. While not all courts may treat such acknowledgments as dispositive, particularly where a defending party is able to demonstrate that the information claimed as a trade secret is readily ascertainable, such acknowledgments may be helpful when a franchisor seeks injunctive relief to protect its trade secrets and has only limited time to develop proof in support of its claims.224

E. Considerations Regarding Ownership of Trade Secrets in Corporate Structure

In contrast with the UTSA, the DTSA specifically provides a private right of action to the “owner of a trade secret.”225 Accordingly, there is the possibility that actions brought to remedy misappropriation of trade secrets will be required to be taken by the trade secret owner, rather than an affiliate or entity that licenses the trade secrets from the owner.226 To the extent franchisors hold ownership in their intellectual property in multiple companies with licenses among the corporate entities, they may want to consider having the trade secrets held by the entity that is likely to be the entity that would be initiating actions to remedy any trade secret misappropriation.

VIII. PRACTICAL TIPS FOR LITIGATORS

Even at this early stage of the DTSA’s existence, some useful approaches to DTSA litigation can be discerned.

Plaintiffs should consider the following:

224 See, e.g., Jackson Hewitt Inc. v. Childress, No. 06-cv-909, 2008 WL 199539 (D.N.J. Jan. 22, 2008) (in granting franchisor’s motion for injunctive relief, court noted that franchisee in the franchise agreement acknowledged that identities of customers served by franchisee were the franchisor’s “trade secrets, confidential and proprietary information,” agreed that disclosure of such information would cause irreparable injury, and consented to the grant of injunctive relief in the event of violations of its agreement not to use such information following termination); Kodekey Elec., Inc. v. Mechanex Corp., 486 F.2d 449 (10th Cir. 1973) (relying upon contractual acknowledgments that information qualified as a trade secret).


226 Health Banc Int’l, LLC v. Synergy Worldwide, Inc., No. 2:16-cv-00135, 2016 WL 5255163 (D. Utah Sept. 22, 2016) (holding that plaintiff may have been the licensor of the technology at issue, it was not the “owner” and, therefore, could not assert a claim under the DTSA); Phyllis Schlafly Revocable Trust v. Cori, No. 4:16-cv-01631, 2016 6611133 (E.D. Mo. Nov. 9, 2016) (denying motion for TRO because it was not clear that plaintiff was the “owner” of the trade secrets at issue and, therefore, plaintiff had not established a likelihood of success supporting a TRO).
1. Identify and allege post-enactment conduct by the defendants. Pre-enactment conduct may also be relevant, but be wary of reliance on a continuation of the same conduct as a basis for jurisdiction.
2. Plead corresponding state law claims, but be careful of differences between the DTSA and state trade secret statutes.
3. Consider the risk of removal to federal court. Is a state court venue important? If so, consider omitting a DTSA claim.
4. Carefully consider risks of seizure procedures and provide notice whenever possible.
5. If there is a need to pursue ex parte seizure remedies, look to Lanham Act precedents before proceeding.
6. Ensure that the owner of trade secrets (not a licensee) is asserting DTSA claims.
7. In departing employee cases, use a forensic expert prior to filing to investigate the former employee’s electronic trail. Detailed forensic evidence is important, especially where seizure is involved.
8. Even if one argues a presumption of irreparable injury under the DTSA, present evidence of irreparable injury as well.
9. Proposed orders should reflect limits of state law, especially as those laws affect restrictions on employment.
10. Don’t forget Computer Fraud and Abuse Act and state computer crimes laws; their use may add strength to the claims.

And, for those defending DTSA claims:

1. Motions to dissolve or modify seizure orders may be well-received.
2. Cross-claim for wrongful seizure to protect defendant’s rights to compensation for wrongful seizure.
3. Challenge bonding requirements, but avoid overreaching.
4. Challenge injunctive relief, especially restrictions on employment.
5. Apply standard defenses from UTSA.

IX. A CONCLUSION AND A CONUNDRUM

The legislative history of the DTSA is schizophrenic. It declares that the definition of trade secret under the DTSA should not be “meaningfully different from the scope of that definition as understood by courts in States that have adopted the UTSA.” Yet the same reports speak to Congress’ intent to establish a single, national standard for trade secret misappropriation. In other words, we want a federal act that means the same thing in all 50 states, but doesn’t disrupt everyone’s life by straying too far from established state UTSA law.

Is it possible to serve both uniformity and the principle of stare decisis? The slight differences in the statutory definitions of trade secret, as between the DTSA and state UTSA, may cause minor discomfort. But consider the fate of the doctrine of inevitable disclosure. Will federal courts in states that recognize the doctrine apply it under the rubric of the DTSA? Will federal courts disagree on the issue of inevitable disclosure, even where state law recognizes the doctrine? The decision on that issue, as most other potential areas of conflict between the

228 Id. at pages 14 and 6, respectively.
DTSA and state enactments of the UTSA, has been left to the courts. Without statutory guidance, which the DTSA does not provide, courts are likely to apply similar rationales and rules as they have under state UTSA's. Precedent will be afforded respect.

Appellate courts will begin to apply their weight to the task of building DTSA case precedent, and if the Circuits disagree, the Supreme Court may finally decide some of these issues. Until then, lower courts will be left to their own rationales as to create and apply useful DTSA precedents.
SCOTT MCINTOSH

Scott McIntosh is a partner in the Washington, D.C. office of Quarles & Brady LLP and serves as the office chair of its Litigation & Dispute Resolution Group. He is a franchise law attorney possessing significant experience dealing with the most complex cases among the business, litigation, and regulatory issues that confront franchising companies. He certainly and routinely helps to resolve common, discrete disputes between franchisors and franchisees, but when issues rise to the level of class actions, multiparty disputes, and matters spanning litigation and binding arbitration at the same time, Scott is an invaluable resource. He manages all the logistics, maintains consistency across all the actions pertaining to the matter, and retains control of the costs while pursuing the best possible outcomes for his clients.

Scott's franchise dispute resolution practice is national in scope, and he has handled franchise litigation matters in more than 20 states, in both state and federal courts and at both the trial court and appellate levels. He has also arbitrated cases before various arbitral bodies, including the American Arbitration Association (AAA), the International Centre for Dispute Resolution (ICDR), JAMS, and United States Arbitration & Mediation. Scott has represented clients in the mediation of disputes that involved as few as two parties and as many as 155 parties. Scott also has extensive experience with judicial proceedings that frequently arise collateral to alternative means of dispute resolution, including motions for injunctions, motions to compel arbitration, and motions to enforce arbitration awards.

Scott also counsels clients on franchise relations, terminations, transfers, and regulatory compliance. He advises clients on changes and updates to their systems, transitioning to new forms of franchise agreements, and enforcement of system standards. Scott has assisted clients with the preparation of various transactional documents to evolve and strengthen their systems.

Scott frequently writes and speaks on franchising and related issues. Scott has written articles published in the Franchise Law Journal, The Franchise Lawyer, and Franchising World Magazine, among other publications. Most recently, he co-authored To Presume, or Not to Presume, Irreparable Injury in Trademark Disputes Involving Franchises Following eBay and Winter, Franchise Law Journal, Summer 2016. He is also a member of the ABA Forum on Franchising's Publications Committee and a contributing co-author to the upcoming Franchise Desk Book, Third Edition.

Scott obtained his Juris Doctor degree, with honors, from the Georgetown University Law Center, as well as a Masters Degree in Foreign Service from the Edmund A. Walsh School of Foreign Service at Georgetown University, in 1998. He graduated in 1993, with honors, from the University of California, Los Angeles, with a Bachelors Degree in Political Science. He also received a Certificate of Executive Management from the University of Notre Dame, Mendoza College of Business, in 2013 and became a Certified Franchise Executive by the Institute of Certified Franchise Executives in 2012.
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Her current Board memberships include the South Carolina Chapter of the Nature Conservancy; the United Way of Greenville County; The Priester Foundation; and the Institute for Child Success of which she is a founder. She has one daughter, Bronwyn Kelson, who prosecutes bad guys in Sumter, SC, a lawyer son-in-law who strives to do good as a South Carolina Senator, and a granddaughter Adelaide who is the most wonderful, amazing child in existence (except for your grandchild), and another equally amazing grandson on the way. Tami loves to cook, read, and travel. She skis badly but gamely.