



A Key Difference Between the DTSA and UTSA: “Continued Misappropriation” Continues to be a Viable Claim

Insights

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The Defend Trade Secrets Act (“DTSA”), unapologetically, was modeled after the Uniform Trade Secrets Act (“UTSA”) in many respects. For background, the DTSA is the federal statute, enacted in 2016, that creates a federal private right of action for misappropriation of trade secrets. The UTSA is a model statute that has been adopted, in various forms with many variations, in 48 states and the District of Columbia.

One of the key distinctions between the two is the DTSA’s ex parte seizure remedy. Another less well known difference, and one that is being newly addressed in federal courts, is the treatment of continued misappropriation that begins prior to the enactment of the statute. The UTSA expressly addresses this situation and does not permit it. Section 11 states that the UTSA does not apply to “continuing misappropriation that occurs after the effective date.” The DTSA, by contrast, is silent on this issue. This has led to disputes in recent DTSA cases.

In Brand Energy v. Irex Contracting Group, the court was presented with this exact issue. In that case, certain employees of the plaintiff allegedly conspired to steal the plaintiff’s trade secrets in a coordinated effort over the course of years to drive the plaintiff out of business. In pertinent part, the employees/defendants allegedly misappropriated trade secrets in 2014 and 2015, prior to the DTSA’s May 11, 2016 enactment. Even more importantly, the employees allegedly misappropriated and continued to use plaintiff’s trade secrets after the enactment of the DTSA and to the present day.

The defendants moved to dismiss the DTSA claim because the allegedly wrongful conduct occurred before the DTSA was enacted. They also moved to dismiss on constitutional grounds, claiming that the application of the DTSA amounted to an *ex post facto* law. The court found neither argument convincing.

First, the court held that the plaintiff had stated a claim for misappropriation under the “use” prong of the DTSA. The DTSA permits misappropriation claims based on improperly “acquired” trade secrets or trade secrets that are “use[d]” or “disclose[d]” by improper means. Here, the court held that the plaintiff had alleged “multiple instances” where the defendants allegedly “used” plaintiff’s trade secrets after the enactment of the DTSA, which was sufficient.

Next, the court addressed the constitutional argument. It needed to determine that (1) Congress did not expressly prescribe the DTSA’s reach and (2) Congress intended the temporal reach using

normal rules of statutory construction. The court first determined that Congress did not expressly prescribe the reach of the DTSA. Section 2(e) of the DTSA states that it applies to “misappropriation of a trade secret ... for which *any act* occurs on or after [May 11, 2016].” The provision includes important qualifying language. It does not simply state that claims must be for misappropriation after the May 11, 2016; rather, it allows misappropriations claims “for which *any act*” occurs after May 11, 2016. By permitting claims based on *any act* occurring after May 11, 2016, the DTSA opens the door to claims based on a pattern or misappropriation or continuing misappropriation where at least one act occurred after the enactment of the DTSA.

The court also found that Congress intended this temporal reach based on its statutory construction of the statute. As stated previously, the UTSA has a provision expressly prohibiting continuing misappropriation claims that begins with an act of misappropriation prior to the enactment of the statute, whereas the DTSA is silent on this issue. This was not a mistake. The court reasoned that Congress was well aware of the UTSA and its provisions and “borrowed heavily” from the UTSA in multiple respects. Its exclusion of this provision from the DTSA was “revealing” and “clearly expressed” Congressional intent to permit continuing misappropriation claims that began prior to and continued after the DTSA’s enactment.

The court was not alone in its holding and joined the two other district courts that have addressed this issue and come to the same conclusion: *Syntel Sterling v. Trizetto* and *Adams Arms v. Unified Weapon*.

In sum, *Brand Energy* serves a number of important lessons for businesses and litigators. One, continued misappropriation claims appear to be viable under the DTSA so long as they are well pleaded and include allegations of continued use of trade secrets after the enactment of the DTSA. It is possible that such claims will still be subject to a motion to dismiss, but based on growing case law, it appears that such a challenge to a properly drafted complaint will be unsuccessful. Two, it serves as a reminder that the DTSA is not the UTSA and that there are key differences that should be analyzed and considered when bringing a trade secrets claim. Finally, as the DTSA gets older, the impact of this case law is expected to decrease since claims will not include pre-enactment misappropriation. Nevertheless, in the nascent stages of the DTSA, it remains a very real possibility and should be top of mind for any new case.