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Jury's Still Out on the Impact of the Defend Trade Secrets Act

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THE DEFEND TRADE SECRETS ACT WAS signed into law by President Barack Obama a year ago, on May 11, 2016. The DTSA—a rare piece of bipartisan legislation—created a new private federal cause of action for trade secret misappropriation. The DTSA also granted courts extraordinary new authority to seize property on an *ex parte* basis to “prevent the propagation or dissemination of the trade secret that is the subject of the action.”

One of the main rationales for passage of the DTSA was that it would provide a uniform, national body of trade secret law, akin to what has long existed for patents, copyrights, and trademarks. (See: Sen. Rep. No. 114-220, 114th Cong., 2d Sess. 2.) That may still prove true. But so far the clear trend has been for courts to apply existing state Uniform Trade Secret Act jurisprudence—which varies from state to state in potentially case dispositive ways—to the DTSA.

Emblematic of this trend is *Kuryakyn Holdings, LLC v. Ciro, LLC*, No. 15-cv-703-jdp (W.D. Wis. Mar. 15, 2017). In that case, Kuryakyn asserted claims for misappropriation under both the DTSA and state law. On summary judgment, the court addressed Kuryakyn’s federal and state misappropriation claims together, noting “that substantively the UTSA and DTSA are ‘essentially the same’ ... and that courts may look to the state UTSA when interpreting the

DTSA.” The court then proceeded to apply existing decisions interpreting Wisconsin’s UTSA.

A district court in California adopted the same approach in *Henry Schein v. Cook*, No. 16-cv-03166-JST (N.D. Cal. June 22, 2016). In addressing the plaintiff’s request for a preliminary injunction under the DTSA and California’s UTSA, the court noted that the two statutes include similar definitions of “trade secret” and then used California law to assess



whether the information at issue qualified as a trade secret.

The trend of relying on state UTSA precedent to interpret the DTSA is certainly understandable. There are three decades of case law interpreting state UTSA's, providing courts with a ready source of potential answers to most questions. But this trend can—and indeed already has started to—create regional differences in the interpretation and application of the DTSA.

For example, one key area where state UTSA's differ from each other is whether a trade secret plaintiff must identify the asserted trade secrets with particularity at the outset of litigation. Most state UTSA's and the DTSA have no explicit identification requirement. But under California law, plaintiffs must identify their trade secrets with “reasonable particularity” before they can pursue discovery. Cal. Civ. Proc. Code § 2019.210. And other state courts, like Florida's, have imposed similar requirements through decisional law. (See: *e.g.*, *AAR Mfg., Inc. v. Matrix Composites, Inc.*, 98 So.3d 186 (Fla. D.C.A. 2012).

It remains an open question whether these state law trade-secret identification requirements are substantive and therefore necessarily apply in federal court. Many federal courts in California have sidestepped the question and required particularized identification of trade secrets as a pleading requirement under Federal Rule of Civil Procedure 8, rather than under CUTSA. Now, following this existing body of case law, federal courts in California have started applying this same approach to pleading trade secrets in cases brought

pursuant to the DTSA. In *Space Data Corp. v. X*, No. 16-cv-03260-BLF (N.D. Cal. Feb. 16, 2017), for example, the court dismissed the plaintiff's DTSA claim, in part for failure to adequately identify the trade secrets at issue.

In contrast, at least one federal court in a state with less rigid identification requirements has gone in a different direction. Specifically, in *Mission Measurement Corp. v. Blackbaud, Inc.*, --- F. Supp. 3d ---, No. 16 C 6003 (N.D. Ill. Oct. 27, 2016), the court applied Illinois UTSA law in denying defendant's motion to dismiss the plaintiff's DTSA claim for failure to identify the alleged trade secrets. The court explained that “Courts in this district . . . have concluded trade secret ‘allegations to be adequate [so long as] the information and the efforts to maintain its confidentiality are described in general terms.’”

If this trend continues, the hoped-for uniform, national body of trade secret law is unlikely to materialize. But the DTSA is still in its infancy, with no appellate decisions on the books. Thus, there are ample opportunities for courts both to reconcile the emerging differences in interpretation of the statute and to stake out new ground for the DTSA.

For example, the DTSA's *ex parte* civil seizure provisions have no state law analogue and therefore, necessarily will spawn new, uniquely federal trade secret law. Because the *ex parte* seizure provisions of the DTSA were modeled on those for seizure of counterfeit goods under the Lanham Act, one would expect courts to turn to the extensive body of Lanham Act jurisprudence for early guidance.

And there are other unique facets of the DTSA that have yet to be addressed. For example, the DTSA declares employees acting as whistleblowers immune from trade-secret misappropriation claims (so long as they follow certain steps) and punishes trade-secret owners who fail to provide notice to their employees of this whistleblower protection – by precluding them from recovering treble damages and attorneys' fees in any trade secret case they bring. The scope of this new whistleblower immunity, and the boundaries of the notice obligation, will be solely federal DTSA issues.

While these unique DTSA issues will continue to develop in the next few years, so far, the DTSA has had little impact on most substantive issues in trade secret litigation. State-specific variations in trade secret law still matter, and litigants should carefully consider those differences in pursuing misappropriation claims and defenses under the DTSA.

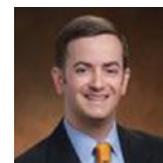
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