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What the Defend Trade Secrets Act Means for California

By Warren Braunig and Andrea Nill Sanchez

A new day has dawned for trade secrets practitioners. In a fleeting moment of bipartisanship this spring, Congress passed the Defend Trade Secrets Act (DTSA), which President Barack Obama swiftly signed into law on May 11, 2016. The DTSA adds a federal civil claim for trade secret misappropriation to go along with the criminal penalties already available under federal law. Its goal of preventing the theft of U.S. trade secrets by foreign governments prompted a nearly unanimous vote in its favor. But the act is also bound to reshape trade secret litigation across the country by creating a federal private right of action in an area of law that long has been the exclusive purview of the states.

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The DTSA opens up a whole new set of considerations for California plaintiffs and their lawyers in trade-secret cases: Should you sue under both the DTSA and the California Uniform Trade Secrets Act (CUTSA)? Do you still need a CUTSA claim at all? Do you want to be in federal court, where the law will be emerging, or in the more familiar confines of state court? And so on.

The core of the DTSA is modeled on the Uniform Trade Secrets Act, with similar definitions of a "trade secret" and "misappropriation," the same three-year statute of limitations and the availability of treble damages for willful misappropriation. Yet the DTSA nominally appears to provide trade secret plaintiffs with three distinct advantages over California law. It remains to be seen whether those advantages will pan out.

The 2019.210 Trade Secrets List

First, the DTSA does not incorporate the familiar requirement of CCP § 2019.210 that, before commencing trade secrets discovery, the plaintiff must identify its relevant trade secrets with "reasonable particularity." The obligation to serve a 2019 list at the outset of the case presents both a logistical hurdle for California plaintiffs and an opportunity for defendants to make mischief by challenging the propriety of the trade secrets list. See *Advanced Modular Sputtering, Inc. v. Superior Court*, 132 Cal.App.4th 826 (2005). If the DTSA is interpreted to not require t he same threshold determination, plaintiffs' path to both discovery and injunctive relief—the primary sources of leverage in a trade secrets case—will be faster and easier in federal court.

There are some indications, however, that federal courts ultimately might graft the 2019.210 requirement into federal law. California federal courts sitting in diversity have split over whether to require plaintiffs to serve a trade secret list at the outset of the case. See *Social Apps, LLC v. Zynga, Inc.*, 2012 WL 2203063 (June 14, 2012) (collecting cases). But a number of courts have noted that Section 2019.210 is "generally consistent with [Federal] Rule 26's requirements of early disclosure of evidence relevant to the claims at issue and the court's authority to control the timing and sequence of discovery in the interests of justice." Id. Section 2019.210 also prevents plaintiffs from abusing the discovery process, better defines the scope of discovery and enables more-complete and well-reasoned defenses—concerns on the mind of every federal judge.

If courts decide there is no analogous 2019-type rule in federal trade secrets cases, we anticipate that many plaintiffs will file DTSA claims in federal court without a corresponding state-law claim, in order to avoid the early disclosure of trade secrets and obtain discovery sooner.

DTSA's Ex Parte Seizure Proceeding

Second, section 2(b)(2) of the DTSA allows plaintiffs to obtain ex parte orders "for the seizure of property necessary to prevent the propagation or dissemination of the trade secret." Items seized pursuant to this provision could range from a flash drive containing misappropriated documents to consumer electronics embodying misappropriated trade secrets. This ex parte seizure clause has been hotly debated. Proponents argue it is necessary to prevent trade secrets from being hidden abroad when a case is filed, while critics have suggested the procedure could be open to abuse by "trolls" or aggressive competitors seeking to obtain leverage.

While the ex parte seizure provision provides a potent and draconian remedy, there is good reason to believe it will not be regularly imposed. By its own terms, seizure under the DTSA is available only in "extraordinary circumstances." Plaintiffs must not only establish the elements required for any injunctive relief—a likelihood of success on the merits and a risk of imminent harm that outweighs the harm to the target—but also must demonstrate with specific facts that the defendant would otherwise "destroy, move, hide, or otherwise make such matter inaccessible to the court." Plaintiffs face the added risk of restorative and punitive damages under section 2(b)(2)(G), along with attorneys' fees, in the event of a wrongful or excessive seizure.

Revival of Common Law Misappropriation Claims?

Third, the DTSA might revive common law tort claims that today cannot be brought with a CUTSA claim. The CUTSA has been interpreted to supersede common law tort claims that are based on the same nucleus of facts as a trade secret misappropriation claim. See *Silvaco Data Sys. v. Intel Corp*, 184 Cal.App.4th 210 (2010). The new federal private right of action explicitly does not "preempt any other provision of law."

Does this mean a plaintiff could now combine a DTSA cause of action with state law tort claims for conversion, misappropriation, etc.? Perhaps—but the better reading of the California cases is that the CUTSA is meant to occupy the field where the underlying acts derive from trade secret misappropriation. Assuming the reasoning of *Silvaco* is adopted by the federal courts, as it generally has been, plaintiffs still would be faced with pre-emption, unless the common law tort claims are based on activities distinct from the taking or use of proprietary information.

Preserving California Law

The changes embodied in the DTSA are not all plaintiff-friendly. Congress went out of its way to incorporate or carve out certain employee-defendant protections built into California law.

For instance, the DTSA expressly rejected injunctive relief based on the "inevitable disclosure" doctrine, the notion that a company's former employee will inevitably use his prior employer's trade secrets when working for a competitor in the same field. While "inevitable disclosure" remains a basis for injunctive relief in many states, it has been firmly rejected in California. *Whyte v. Schlage Lock Co.*, 101 Cal.App.4th 1443 (2002). Under the DTSA, any conditions a federal court places on employment must be "based on evidence of threatened misappropriation and not merely on the information the person knows."

The DTSA similarly precludes injunctions that would "conflict with an applicable State law prohibiting" restraints on trade, such as the restrictions on non-compete agreements in Business & Professions Code section 16600. On the Senate floor, Sen. Dianne Feinstein characterized this language as explicitly "preserv[ing] the law in California and elsewhere."

What, then, will the DTSA mean for California trade secrets litigation? The DTSA is like the newest book in a series we know well: familiar characters, but in a new setting. With three decades of established jurisprudence behind it, the CUTSA is likely to serve as a model for shaping the meaning of the new law and filling in the gaps that Congress left open. If so, we can reasonably predict where the DTSA's story will end up. The uncertainty lies in whether Congress's stated national security goals in passing the DTSA will influence the emerging case law and the way these cases are litigated. That is a chapter yet to be written.

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