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The Defend Trade Secrets Act: Some Practical Considerations

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Today President Obama signed the Defend Trade Secrets Act (DTSA or the “Act”), which creates a new federal cause of action for trade secret misappropriation effective immediately.

The DTSA establishes federal jurisdiction for claims brought under the Act, which will now provide trade secret plaintiffs with the option to sue in federal court and bring with it the potential for a more unified body of federal law.

Although trade secret theft has been a federal crime since 1996, civil claims for trade secret misappropriation were almost always governed by state law.¹ As a result, although plaintiffs who could establish diversity or concurrent jurisdiction could file trade secret cases in federal court, other plaintiffs were limited to state court. Nearly every state has adopted some variant of the Uniform Trade Secrets Act (UTSA). Its title notwithstanding, the UTSA suffered from a perceived lack of uniformity due to the many variations in the state statutes adopting it. Because the Act does not preempt state trade secret law claims, the option to proceed under state law, and in state court, will remain.

WHAT'S NEW

Employers Should Update Employment Agreements to Provide DTSA Notices

Only one provision of the DTSA requires immediate action: the Act includes a whistleblower clause that provides immunity for disclosure of trade secrets to government officials for the sole purpose of reporting violations of the law.² Employers must give notice of that immunity “in any contract or agreement with an employee that governs the use of a trade secret or other confidential information.”³ Employers who do not do so cannot recover punitive damages or attorneys’ fees that may otherwise be available under the Act.

Employers should consider addressing this clause in current policies regarding trade secret information (or establishing such policies if they do not exist) and reviewing existing employment, non-disclosure, proprietary information and invention assignment, and other agreements that govern the use of a trade secret or other confidential information to ensure compliance with the DTSA. For example, employers could insert a cross-reference to a compliant policy, or the following language into those agreements:

¹ There are a few notable exceptions. See, e.g., *TianRui Grp. Co. v. Int’l Trade Comm’n*, 661 F.3d 1322, 1327 (Fed. Cir. 2011).

² 18 U.S.C. § 1833(b)(1).

³ 18 U.S.C. § 1833(b)(3)(A).

Client Alert

18 U.S.C. § 1833(b) states:

“An individual shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that—(A) is made—(i) in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.”

Accordingly, the Parties to this Agreement have the right to disclose in confidence trade secrets to Federal, State, and local government officials, or to an attorney, for the sole purpose of reporting or investigating a suspected violation of law. The Parties also have the right to disclose trade secrets in a document filed in a lawsuit or other proceeding, but only if the filing is made under seal and protected from public disclosure. Nothing in this Agreement is intended to conflict with 18 U.S.C. § 1833(b) or create liability for disclosures of trade secrets that are expressly allowed by 18 U.S.C. § 1833(b).

International Trade Secrets Disputes and Foreign Competition

The DTSA imposes reporting requirements to address the internationalization of trade secret disputes. The Act requires the Attorney General to prepare biannual reports detailing, among other things, the scope of theft of American trade secrets occurring outside of the United States, the extent to which those thefts are sponsored by foreign governments, a breakdown of the trade secret protections in each of the United States' trading partners, and specific recommendations to the executive and legislative branches for reducing trade secret theft and protecting American companies. The first report is due in one year.

The reporting requirement may lead to further amendments to the Act designed to provide further protections to United States companies. The reports could also lead to pressure being exerted on certain trading partners and could eventually lead to efforts to harmonize trade secrets law among international trading partners.

Standing Requires Ownership

Unlike the trade secrets statutes in some states, the DTSA allows an “owner of a trade secret” to bring a civil action under the Act. The California statute, for example, does not have such a stringent requirement, and California courts have held that it does not require a plaintiff to be a current owner of a trade secret.⁴

New Disclosure Protections (for All Federal Suits)

The DTSA prohibits district courts from “authoriz[ing] or direct[ing] the disclosure of any information [a trade secret] owner asserts to be a trade secret unless the court allows the owner the opportunity to file a submission under seal that describes the interest of the owner in keeping the information confidential.”⁵ This provision—

⁴ See *Jasmine Networks, Inc. v. Super. Ct.*, 180 Cal. App. 4th 980, 986 (2009).

⁵ 18 U.S.C. § 1835(b).

Client Alert

which is not expressly limited to DTSA cases—may have broader applicability and could lead to more sealed filings and orders.

Ex Parte Seizure Orders

The DTSA adds an important remedy not found in the Uniform Trade Secrets Act: it provides for ex parte orders “providing for the seizure of property necessary to prevent the propagation or dissemination of the trade secret.”⁶ This has been one of the most publicized new provisions of the Act, simultaneously lauded and vilified, depending on your point of view.

In fact, this procedure is likely to be employed infrequently, because the prerequisites for the issuance of a seizure order are lengthy and exacting. To issue such an order, a court must find all of the following: (i) another form of equitable relief would be inadequate because the party to be enjoined would evade, avoid, or otherwise not comply; (ii) immediate and irreparable injury will occur if such seizure is not ordered; (iii) the harm to the applicant outweighs the interests of the party to be enjoined and substantially outweighs potential harm to third parties; (iv) the applicant is likely to succeed on the merits; (v) the party to be enjoined has actual possession of the trade secret; (vi) the application describes the matter to be seized with reasonable particularity; (vii) the party to be enjoined would destroy, move, hide, or otherwise make such matter inaccessible to the court; and (viii) the applicant has not publicized the requested seizure.⁷ An ex parte seizure order must include those detailed findings of fact and law and a number of other requirements, such as instructions that provide for the narrowest seizure of property necessary, detailed guidance to law enforcement (including permissible hours of seizure and the directions about the amount of force authorized), and instructions on protecting the seized property from disclosure.⁸ The burden imposed on plaintiffs preparing these applications, and courts reviewing them, will be substantial.

The DTSA provides a number of special procedures for handling seized material, including the use of a special master to locate and isolate the seized material and the potential use of encryption to secure the seized material. The use of special masters could be an attractive option for overburdened courts faced with administering these procedures.

WHAT STAYED THE SAME (IN CALIFORNIA AND OTHER STATES)

No Preemption

The DTSA does not preempt states’ trade secrets acts or any other state laws.⁹ Accordingly, state law causes of action should remain largely unchanged.

⁶ 18 U.S.C. § 1836(b)(2)(A)(i).

⁷ 18 U.S.C. § 1836(b)(2)(A)(ii).

⁸ 18 U.S.C. § 1836(b)(2)(B).

⁹ 18 U.S.C. § 1836(f).

Client Alert

Similarity to Uniform Trade Secrets Act

The DTSA is modeled on the Uniform Trade Secrets Act, which is also the model for the trade secret statutes in California¹⁰ and other states. Therefore, the elements of a DTSA misappropriation claim are similar to the elements of state law trade secret claims.¹¹ Given the many variations in UTSA-based statutes, however, there are significant differences that vary from state to state.

The DTSA provides the same remedies as the California Uniform Trade Secrets Act and most UTSA states, plus the ex parte seizure remedy.¹² It also has the same three-year statute of limitations as California.¹³ Importantly, like the UTSA, the DTSA states that a continuing misappropriation constitutes a single claim of misappropriation and thereby precludes arguments that each new act of misappropriation restarts the statute of limitations.

The Act Does Not Adopt the Inevitable Disclosure Doctrine

Under the inevitable disclosure doctrine, “a plaintiff may prove a claim of trade secret misappropriation by demonstrating that [a] defendant’s new employment will inevitably lead [the defendant] to rely on the plaintiff’s trade secrets.”¹⁴ The doctrine has been rejected in California and other states because it “‘creates a de facto covenant not to compete’ and ‘runs[s] counter to the strong public policy in California favoring employee mobility.’”¹⁵

The inevitable disclosure doctrine was a topic of significant discussion in legislative hearings for the DTSA, and the DTSA is designed to strike a careful balance to ensure that the DSTA does not introduce the inevitable disclosure doctrine to states that have rejected it. The DTSA expressly forbids injunctions that “conflict with an applicable State law prohibiting restraints on the practice of a lawful profession, trade, or business”¹⁶ or limit employment based “merely on the information the person knows.”¹⁷ The lack of an inevitable disclosure claim in the DTSA is consistent with the White House’s recent report on Non-compete Agreements, which “address[es] the potentially high costs of unnecessary non-competes to workers and the economy.”¹⁸

WHAT REMAINS TO BE SEEN

There are many issues that will be determined as jurisprudence under the DTSA develops. To what extent will federal courts apply the law of the state in which they are sitting? Will federal courts become the default venue for civil trade secret claims, or will plaintiffs prefer to proceed in state courts, which are sometimes perceived as a more plaintiff-familiar venues? We address a few specific issues below.

¹⁰ California Uniform Trade Secrets Act. (Cal. Civ. Code § 3426, *et seq.*).

¹¹ Compare 18 U.S.C. § 1839(3)-(6) with Cal. Civ. Code § 3426.1.

¹² Compare 18 U.S.C. § 1836(b)(3) to Cal. Civ. Code § 3426.2-3426.4.

¹³ 18 U.S.C. § 1836(d).

¹⁴ *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262, 1269 (7th Cir. 1995).

¹⁵ *Whyte v. Schlage Lock Co.*, 101 Cal. App. 4th 1443, 1463 (2002) (quotation omitted) (“Lest there be any doubt about our holding, our rejection of the inevitable disclosure doctrine is complete.”).

¹⁶ 18 U.S.C. § 1836(b)(3)(A)(i)(II).

¹⁷ 18 U.S.C. § 1836(b)(3)(A)(i)(I).

¹⁸ See https://www.whitehouse.gov/sites/default/files/non-competes_report_final2.pdf.

Client Alert

The Act's Impact on Section 2019.210 Is Uncertain

California Code of Civil Procedure Section 2019.210 requires a trade secret plaintiff to identify its claimed trade secrets with "reasonable particularity" before commencing discovery.¹⁹ The DTSA has no such express requirement.

One court has noted that section 2019.210 gives defendants "strategic and tactical advantages . . . not only because plaintiffs must 'go first,' which allows defendants to tailor their defense to plaintiffs' disclosure, but also because there is often significant delay and cost" due to disputes about the adequacy of a Section 2019.210 disclosure.²⁰ Before the DTSA, federal courts hearing California trade secrets act claims split on whether Section 2019.210 applies in federal court. Some courts have chosen to follow the procedure voluntarily, or have found that Section 2019.210 is substantive law that applies in federal court and that it is "generally consistent with 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."²¹ Other courts, however, have found that Section 2019.210 is a procedural requirement that does not apply in federal court.²²

As the DTSA has no express equivalent to Section 2019.210, a plaintiff filing a DTSA claim can argue that it need not separately identify its claimed trade secrets with "reasonable particularity" beyond what might be required to properly plead its claims. The text of Section 2019.210 arguably supports this position, as it expressly limits the statute's reach to "trade secret [allegations] under the [California] Uniform Trade Secrets Act."²³ Defendants can counter, however, that the statute was drafted before the DTSA existed (and the legislature intended the statute to apply to all trade secret claims). Defendants also can rely on opinions holding that "section 2019.210 is not 'cause of action' specific [but instead] refers to any 'action,' *i.e.* the entire lawsuit, 'alleging . . . misappropriation of a trade secret.'"²⁴

The Act May Not Impact the Exclusive Nature of a Trade Secret Claim

The UTSA provides for preemption of other civil causes of action based upon the misappropriation of a trade secret. California's trade secrets act, for example, "provides the exclusive civil remedy for conduct falling within its terms, so as to supersede other civil remedies 'based upon misappropriation of a trade secret.'"²⁵ Courts therefore routinely dismiss related tort claims²⁶ such as business interference, conversion, and negligence that

¹⁹ Cal. Civ. Proc. Code § 2019.210.

²⁰ *Perlan Therapeutics, Inc. v. Super. Court*, 178 Cal.App. 4th 1333, 1353 (2009).

²¹ See, e.g., *Soc. Apps, LLC v. Zynga, Inc.*, No. 4:11-CV-04910 YGR, 2012 WL 2203063, at *2 (N.D. Cal. June 14, 2012).

²² See, e.g., *Funcat Leisure Craft, Inc. v. Johnson Outdoors, Inc.*, No. CIV. S-06-0533, 2007 WL 273949, at *3 (E.D. Cal. Jan. 29, 2007).

²³ Section 2019.210 applies "[i]n any action alleging the misappropriation of a trade secret under the Uniform Trade Secrets Act (Title 5 (commencing with Section 3426) . . . of the [California] Civil Code)."

²⁴ *Advanced Modular Sputtering, Inc. v. Super. Court*, 132 Cal. App. 4th 826, 834 (2005) (holding that Section 2019.210 suspends discovery into all claims related to a trade secret claim).

²⁵ See *Silvaco Data Sys. v. Intel Corp.*, 184 Cal. App. 4th 210, 236 (2010) (quoting Cal Civ Code § 3426.7), as modified on denial of reh'g, No. H032895, 2010 Cal. App. LEXIS 771 (May 27, 2010) overruled in non-pertinent part, *Kwikset Corp. v. Super. Court*, 51 Cal. 4th 310 (2011).

²⁶ The CUTSA, like the UTSA, expressly allows related contract claims. See Cal. Civ. Code § 3426.7; see also *Angelica Textile Servs., Inc. v. Park*, 220 Cal. App. 4th 495, 506 (2013), as modified on denial of reh'g, No. D062405, 2013 Cal. App. LEXIS 908 (Nov. 7, 2013).

Client Alert

are based on the same factual allegations as a trade secrets claim.²⁷ One federal court has recently held that the California trade secrets act preempts non-contract claims that “rely on the alleged misappropriation of Confidential Information” even if no trade secret claim is pled.²⁸

Because the Act does not preempt state law claims, a plaintiff may argue that it may file a DTSA claim and also pursue other tort claims based on the same facts. Such tort claims based on state law are arguably superseded by the California trade secrets act’s exclusivity even if no California trade secrets act claim is asserted, but it remains to be seen how the courts will resolve this issue.

CONCLUSION

The DTSA ushers in a new era in trade secret law by providing for a federal civil cause of action for trade secret misappropriation, and bringing trade secret law in line with its federal IP cousins. The Act strikes a careful balance to preserve many of the important elements of state law. It remains to be seen how federal jurisprudence will develop and whether federal court will now become trade secret plaintiffs’ new forum of choice.

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²⁷ See, e.g., *Callaway Golf Co. v. Dunlop Slazenger Grp. Americas, Inc.*, 318 F. Supp. 2d 216, 220 (D. Del. 2004).

²⁸ *Total Recall Techs. v. Luckey*, No. C 15-02281 WHA, 2016 WL 199796, at *8 (N.D. Cal. Jan. 16, 2016).