

Uniformity Goal Eludes Defend Trade Secrets Act, 5 Years On

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On May 11, 2016, the Defend Trade Secrets Act was signed into law with sweeping bipartisan support, passing unanimously in the U.S. Senate and by a vote of 410-2 in the U.S. House of Representatives.[1]

In the current political climate, passing any significant piece of legislation by such a lopsided vote seems almost unthinkable. The act's popularity can be attributed to an objective that seemingly everybody could agree upon — protecting the intellectual property of U.S. companies — and the crucial decision to create a federal statute that largely mirrored existing state law.

Three key goals of the statute were:

- To create a federal civil remedy, bringing the rights of trade secret owners "into alignment with those long enjoyed by owners of other forms of intellectual property";
- To better address the concerns of a globalized and national economy in which trade secrets can readily be spirited across state lines and "beyond the reach of American law"; and
- To promote uniformity by providing for a "single, national standard for trade secret misappropriation with clear rules and predictability for everyone involved." [2]

At five, the DTSA has made significant progress toward accomplishing the first two of these goals, but so far the third remains elusive.

The DTSA's first goal was essentially achieved as soon as it was enacted, by allowing plaintiffs to bring an action for any trade secret that relates to "a product or service used in, or intended for use in, interstate or foreign commerce." [3]

One way to measure the significance of this is to look at the frequency with which the act is being used. A recent Lex Machina study found that, after holding steady for several years,



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trade secret filings in federal court increased by 30% between 2015 and 2017 — jumping from 1,075 in 2015 to 1,396 in 2017. Federal trade secret filings have remained at that level since, with 1,397 cases filed in 2018, and 1,401 cases filed in 2019.[4]

The Lex Machina report does not address state court trade secret filings, which are more challenging to track due to variability in electronic filing. However, our review of data obtained through Courthouse News shows that state court trade secret filings stayed roughly the same during this time period or declined slightly.[5] This confirms that the increase in federal trade secret cases can be attributed to the DTSA, not just to an increase in trade secret cases generally.

With respect to the second goal, the DTSA is increasingly being interpreted to reach global trade secret misappropriation that may be beyond the reach of state statutes. Led by the U.S. District Court for the Northern District of Illinois' decision last year in *Motorola Solutions Inc. v. Hytera Communications Corp. Ltd.*, [6] several district courts around the country have now held that the DTSA has extraterritorial effect. [7]

These holdings are based on Title 18 of the U.S. Code, Section 1837, which applies when (1) the offender is a citizen or permanent resident of the U.S. or organized under U.S. law, or (2) an act in furtherance of the offense was committed in the U.S.[8]

So far, most district courts have interpreted this provision of the statute broadly. One court, for example, found acts in furtherance of the offense where meetings in the U.S. purportedly led to later misappropriation, even though those contacts did not themselves constitute elements of misappropriation.[9]

Achieving the third goal will be more challenging. While the DTSA was intended to promote uniformity — in contrast to what Congress referred to as a "patchwork of state trade secret laws"[10] — the act explicitly does not preempt state law.[11]

The statute also adopted definitions of key terms such as "misappropriation" from the Uniform Trade Secrets Act, on which state statutes are modeled, "to make clear that this Act is not intended to alter the balance of current trade secret law or alter specific court decisions." [12] These choices greatly facilitated the act's passing but also significantly undermined the goal of uniformity.

Rather than providing consistent outcomes across jurisdictions, so far the DTSA has taken the shape of the law of the forum state. In a typical example, the U.S. Court of Appeals for the Ninth Circuit has stated that the California UTSA is analogous to the DTSA[13] and that federal and state claims can be analyzed together because the elements of each are substantially similar.[14]

Other courts agree,[15] and a number have analyzed federal and state trade secret claims exclusively under state law.[16] In the 2018 *In re: Patriot National* decision, for example, the U.S. Bankruptcy Court for the District of Delaware resolved a motion to dismiss by evaluating the trade secret claims under Missouri and Florida law and then simply mirroring its rulings under the state statutes for the DTSA claims.[17]

The result is that state law differences are being imported into the DTSA, creating the same patchwork of law the statute was intended to rectify.

Perhaps the best example of this is the courts' differing treatment of inevitable disclosure, one of the

key areas in which trade secret law differs among states. The doctrine essentially allows a plaintiff to prove misappropriation by showing that a defendant's new job is so similar to his or her previous one that he or she inevitably will make use of trade secrets.

The DTSA steered clear of inevitable disclosure by prohibiting injunctions that prevent a person from entering into an employment relationship and requiring conditions placed on employment to be "based on evidence of threatened misappropriation and not merely on the information the person knows." It also precludes injunctions that would otherwise conflict with state law prohibiting restraints of trade.[18]

In California, where the doctrine has long been rejected, federal courts find that there is no claim based on inevitable disclosure under the DTSA.[19]

But a series of cases in the Northern District of Illinois, under the U.S. Court of Appeals for the Seventh Circuit — author of the country's leading opinion upholding inevitable disclosure[20] — have reached the opposite conclusion, focusing on the availability of an injunction under the act for threatened misappropriation.[21]

Other federal courts have also followed state law on this issue[22] and, where it is undecided under state law, have declined to determine its applicability under the DTSA.[23]

Federal trade secret law also lacks uniformity on the issue of when, and to what extent, a plaintiff must identify its trade secrets. This is an important issue because trade secret claims lack the more defined boundaries of their federal intellectual property cousins. But the DTSA does not expressly address it.

A growing number of courts are requiring plaintiffs to identify their trade secrets with reasonable particularity before taking discovery.[24] This has long been the case in California, where many district courts have taken their cue from California's state statute requiring a plaintiff to identify its trade secrets with reasonable particularity.[25]

However, some courts reject prediscovery identification altogether.[26] At least for now, a plaintiff's choice of venue in federal court will have a significant impact in this area as well.

At five the DTSA is already a frequently used and effective tool for trade secret enforcement, particularly against misappropriation with an international scope. So far, however, it is not a statute that is being interpreted uniformly.

But the DTSA is still finding its legs. Uniformity may develop over time as more cases make their way to appellate courts. If the U.S. Supreme Court gets a chance to weigh in, it may set the statute back on course to providing more of the consistency Congress hoped to achieve.

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[1] 162 Cong. Rec. S-1631, H-2046.

[2] S. Rept. 114-220; H. Rept. 114-529 (2016).

[3] 18 U.S.C. § 1836(b)(1).

[4] Lex Machina Trade Secret Litigation Report (April 2020) at 3. According to our own analysis of more recent Lex Machina data, federal trade secret filings have remained on a similar pace, with 1,369 in 2020 and 320 in the first quarter of 2021.

[5] Courthouse News data shows that 1,161 trade secret cases were filed in state court in 2015, compared to 1,188 in 2016, 1,195 in 2017, 1,252 in 2018, and 1,103 in 2019. Courthouse News currently tracks data from over 2,875 state courts.

[6] 436 F. Supp. 3d 1150, 1160 (N.D. Ill. 2020).

[7] See, e.g., Herrmann Intl., Inc. v. Herrmann Intl. Europe, 2021 WL 861712, at *16 (W.D.N.C. Mar. 8, 2021); Medcenter Holdings Inc. v. WebMD Health Corp., 2021 WL 1178129, at *6 (S.D.N.Y. Mar. 29, 2021); Syntel Sterling Best Shores Mauritius Ltd., v. Trizetto Group, Inc., 2021 WL 1553926, at *14 (S.D.N.Y. Apr. 20, 2021).

[8] This provision was originally part of the criminal Economic Espionage Act, which the DTSA amended to add a civil cause of action.

[9] Medcenter, 2021 WL 1178129, at *6. See also MedImpact Healthcare Sys., Inc. v. IQVIA Inc., 2020 WL 5064253, at *15 (S.D. Cal. Aug. 27, 2020) (directing communications related to trade secrets to the U.S. and accessing U.S.-based servers found to be sufficient); vPersonalize Inc. v. Magnetize Consultants Ltd., 437 F. Supp. 3d 860, 878-79 (W.D. Wash. 2020) (applying DTSA where purported act in furtherance was performed by third party, rather than defendant).

[10] 162 Cong. Rec. H2033 (daily ed. Apr. 27, 2016).

[11] 18 U.S.C. § 1838.

[12] S. Rept. 114-220 (2016).

[13] ExamWorks, LLC v. Baldini, 835 F. App'x 251, 252 (9th Cir. 2020).

[14] InteliClear, LLC v. ETC Glob. Holdings, Inc., 978 F.3d 653, 657 (9th Cir. 2020).

[15] See, e.g., Deerpoint Grp., Inc. v. Agrigenix, LLC, 393 F. Supp. 3d 968, 980 (E.D. Cal. 2019); JJ Plank Co., LLC v. Bowman, 2018 WL 4291751, at *8 (W.D. La. Sept. 7, 2018); Puroon, Inc. v. Midwest Photographic Res. Ctr., Inc., 2018 WL 5776334, at *5 (N.D. Ill. Nov. 2, 2018); Medidata Sols., Inc., v. Veeva Sys. Inc., 2018 WL 6173349, at *3 (S.D.N.Y. Nov. 26, 2018); ActivEngage, Inc. v. Smith, 2019 WL

5722049, at *3 (M.D. Fla. Nov. 5, 2019).

[16] *Kuryakyn Holdings, LLC v. Ciro, LLC*, 242 F. Supp. 3d 789, 797–98 (W.D. Wis. 2017). See also *In re Patriot Nat'l Inc.*, 592 B.R. 560, 577 (Bankr. D. Del. 2018).

[17] 592 B.R. at 577.

[18] 18 USC § 1836(b)(3)(A)(i)(I)-(II).

[19] See, e.g., *EL T Sight, Inc. v. Eyclight, Inc.*, 2020 WL 7862134, at *16 (C.D. Cal. Aug. 28, 2020) (collecting cases).

[20] *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262 (7th Cir. 1995).

[21] See, e.g., *Inventus Power, Inc. v. Shenzhen Ace Battery Co.*, 2020 WL 3960451, at *11 (N.D. Ill. July 13, 2020) (and cases cited therein).

[22] See, e.g., *Sunbelt Rentals, Inc. v. Love*, 2021 WL 82370, at *68 (D.N.J. Jan. 11, 2021), appeal pending, No. 21-1233 (3rd Cir. filed Feb. 8, 2021).

[23] See, e.g., *AWP, Inc. v. Henry*, 2020 WL 6876299, at **4-5 (N.D. Ga Oct. 28, 2020).

[24] See *A&P Tech., Inc. v. Lariviere*, 2017 WL 6606961, at *9 (S.D. Ohio Dec. 27, 2017) (collecting cases).

[25] *Alta Devices, Inc. v. LG Elecs., Inc.*, 2019 WL 176261, at *1 (N.D. Cal. Jan. 10, 2019) (applying Cal. Code Civ. Proc. § 2019.210).

[26] See *A&P*, 2017 WL 660691, at *9 (noting "divergent rulings from various federal courts").