Application Of Defend Trade Secrets Act Continues To Vary

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In 2016, Congress enacted the Defend Trade Secrets Act to provide a federal cause of action for misappropriation of trade secrets.

Chief among the DTSA's goals was creating a uniform remedy for misappropriation, as before the DTSA's enactment trade secrets were primarily governed by state law.

Although most states based their trade secrets laws on the model Uniform Trade Secrets Act, Congress noted that some state laws diverged from that model in ways that could prove case dispositive.

The DTSA was designed to improve trade secret protection by creating a uniform federal body of trade secret law that avoided those disparities in state laws.

Seven years after the DTSA's passage, however, that anticipated uniformity has proved somewhat elusive.

Rather than use the DTSA to bypass inconsistencies between state laws, federal courts have sometimes incorporated state-law requirements into claims brought under the DTSA, which can perpetuate those case dispositive differences in state trade secrets laws.

That phenomenon is attributable in part to the fact that the DTSA does not preempt state trade secrets laws. As a result, plaintiffs can — and often do — bring claims under both the DTSA and state law.

When presented with co-pending state and federal trade secrets claims premised on the same allegations, some courts applying the DTSA have looked to more established state trade secrets jurisprudence for guidance.

Indeed, courts have sometimes assumed that state and federal trade secrets laws are essentially identical.

That approach — treating DTSA and state trade secrets claims as nearly identical — can simplify individual cases by applying the same standards to both state and federal claims. But it also comingles the requirements of otherwise distinct statutes.

Features specific to a particular state's trade secrets law are effectively imported into the DTSA — despite the DTSA's aim of providing a uniform federal remedy that avoids state-specific complications. The result is that the state where a plaintiff brings its DTSA claim can often affect how that claim is litigated — both substantively and procedurally.

New York law provides an example of how courts have used state trade secrets law to shape the DTSA's

substantive requirements.

The DTSA broadly defines a "trade secret" to encompass "all forms and types" of business, scientific, and similar information, so long as two conditions are met: the information derives "independent economic value" from being secret, and the owner has "taken reasonable measures to keep [the] information secret," as per Title 18 of the U.S. Code, Section 1839(3).

Some federal courts in New York have nonetheless applied a six-factor test borrowed from New York law to determine whether information qualifies as a trade secret under the DTSA.

While there is some overlap between those tests, New York law emphasizes certain factors — such as "the amount of effort or money expended by the business in developing the information" — that the DTSA does not require.

Applying New York's test to DTSA claims thus may effectively increase the showing a plaintiff must make when asserting a DTSA claim. Indeed, courts have cited a plaintiff's failure to address all of New York law's trade secret factors when dismissing DTSA claims.

But importing state law can sometimes have the opposite effect: In at least one case, the 2016 Bancorp Services LLC v. American General Life Insurance Co., applying the New York factors appears to have saved a DTSA claim from dismissal in the U.S. District Court for the Southern District of New York.

On the other side of the country, California law provides a striking example of how state law can affect DTSA claims procedurally.

Under California Civil Procedure Code, Section 2019.210, a plaintiff suing under the California Uniform Trade Secrets Act, or CUTSA, must identify its trade secret "with reasonable particularity" before it can "commenc[e] discovery relating to the trade secret" under California Civil Procedure Code, Section 2019.210.

If that requirement is not satisfied by the complaint, the plaintiff must often file an additional disclosure that provides greater detail about its trade secrets.

State procedural rules ordinarily do not apply in federal court, even with respect to state-law claims. It is thus questionable whether California's disclosure requirement should apply even to CUTSA claims in federal court. And it seems particularly odd to apply that state requirement to federal DTSA claims.

Illustrating that oddity, federal courts in California have arrived at inconsistent conclusions about whether California's disclosure requirement applies to DTSA claims.

Some have required such disclosures only for CUTSA claims, while others have required disclosures for DTSA claims even in the absence of parallel CUTSA claims. And still others have held that Section 2019.210's disclosure requirement does not apply in federal court at all.

Part of the issue with applying California's disclosure requirement to DTSA claims is that it places a burden on plaintiffs beyond what the DTSA itself imposes. California's disclosure requirement may present an especially difficult obstacle where plaintiffs do not know which trade secrets were stolen until they take discovery.

For example, an employer may realize that a former employee who now works for a competitor stole its trade secrets once the competitor launches a rival product.

But the employer may not know which particular trade secrets were stolen or are now being used by the competitor.

In that situation, applying California's disclosure requirement may hinder a plaintiff's ability to sue for misappropriation, because the true extent of the misappropriation could only be revealed through discovery — which CUTSA allows only after the plaintiff identifies with particularity what was stolen.

This rule can make it difficult for plaintiffs to pursue defendants who are diligent in covering up their misappropriation.

By contrast, courts have found that the more lenient pleading standard set by Rule 8 of the Federal Rules of Civil Procedure does not impose such a burden on plaintiffs.

Applying that standard in the 2012 Oakwood Laboratories LLC v. Thanoo decision, the U.S. Court of Appeals for the Third Circuit held that a DTSA plaintiff does not need to "spell out the details of the trade secret" or "identify which one or more of [its] trade secrets was misappropriated [to] avoid dismissal" and proceed to discovery.

Instead, the plaintiff need only identify the outer boundaries of the trade secrets at issue — a standard the court found especially appropriate given that, in many trade secret cases, "only discovery will reveal exactly what the defendants are up to" and allow plaintiffs to articulate the full extent of their injuries.

In at least one respect, then, plaintiffs bringing DTSA claims within the Third Circuit — Delaware, Pennsylvania and New Jersey — face a lesser burden than plaintiffs suing in courts that apply California law to demand that trade secrets be identified with particularity before discovery commences.

Closing Thoughts

Plaintiffs suing for trade secret misappropriation should consider the impact of state law on DTSA claims. While successful DTSA claims have resulted in blockbuster verdicts, state trade secrets laws can create serious roadblocks for DTSA claims.

Among other things, litigants should assess which jurisdictions are best suited for the facts of their claims and be prepared to challenge the application of less-favorable state-law requirements to DTSA claims.

Defendants should likewise be attuned to these issues. Differences among state trade secrets laws can be costly and even case dispositive. By staying alert to these issues, in-house and outside counsel can make informed decisions as the still-young DTSA case law continues to develop.

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