TRADE SECRETS: EMERGING JURISPRUDENCE IN THE FIRST YEAR OF THE DTSA

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INCREASING IMPORTANCE OF TRADE SECRETS

• Industry asset shift to data: 17% in 1975 to 84% in 2015

• Electronic storage and transmission, coupled with open innovation, make data more vulnerable

• Trade secrets, the oldest IP, is also the most widely used form of IP

• The AIA, with changes to best mode, prior user rights and secret prior art, makes it less risky to rely on trade secrets
MOST OF THE DTSA IS FAMILIAR

- Definition of a trade secret
- Reasonable-efforts requirement
- Types of misappropriation
- Injunctions (except departing employees)
- Damages
- Enhanced damages and fees
- Three-year limitations period
- It’s a choice: no preemption (except whistleblowers)
PLEADING STANDARDS: STILL EARLY GOING

No heightened pleading requirement


Increasingly vanishing problem of misappropriation
“continuing” after May 11, 2016

- Adams Arms v. Unified Weapons, 2016 WL 5391394 (M.D. Fla.): “continuing” has different meaning than UTSA limitations section

Standard for identification of trade secrets still unclear

- Space Data v. X, 16-cv-03260-BLF (N.D. Cal. Feb. 16, 2017): motion to dismiss granted for failure to specify. Compare to:

FEARS ABOUT EX PARTE SEIZURE NOT REALIZED

• 18 USC 1836(b)(2), patterned after Lanham Act
• Received the most critical attention in Congress
• Order issued in only three cases, one public
• They are difficult to get and to implement
• Key takeaway: Rule 65 orders may be easier
  • See Earthbound Corp. v. Mitek USA, 2016 WL 4418013 at *11 (W.D. Wash.): TRO requiring immediate delivery of devices to independent expert
WHISTLEBLOWER IMMUNITY: THE FIRST CASE


- Employee removed confidential files, attorney claimed review for wrongdoing
- Employer sought injunction, Loftus filed MTD
- Court refused dismissal because predicate facts of immunity not established

Decision has been criticized by professor who inspired statute


How to resolve question at “earliest possible time”

- Similar to personal jurisdiction, with limited discovery?

How to prepare for and discourage employee misuse

- Careful documentation, vigorous enforcement
THE DEATH OF “INEVITABLE DISCLOSURE”?

Based on dictum *Pepsico v Redmond*, 54 F.3d 1262 (7th Cir. 1995)
- In fact, injunctions without evidence of bad behavior are rare

Touchstone is UTSA §2: “threatened misappropriation”
- Widely accepted that threats can be circumstantial

California concern that federal court could impose “inevitability”
- B&P Code 16600: strong public policy favoring employee mobility

§1836(b)(3)(A): respect state policy, no bans, require real evidence
- “conditions . . . shall be based on evidence of threatened misappropriation and not merely on the information the person knows”
- Facts of *Pepsico* could result in “threatened misappropriation” injunction in CA
EXTRATERRITORIAL SCOPE NOT CLEAR YET

Statutes don’t apply outside the U.S. unless Congress intends it.

DTSA added (uncodified) §5 “Sense of Congress” that

- "Trade secret theft occurs in the U.S. and around the world, and, wherever it occurs, harms the companies that own the trade secrets and the employees of the companies”

DTSA added (uncodified) §4 requiring regular reports on

- "The scope and breadth of the theft of trade secrets of U.S. companies occurring outside of the U.S., and the threat” posed, together with recommendations to “reduce the threat of and economic impact caused by” such foreign theft

EEA expressly provided (18 USC §1837) limited extraterritoriality

- If an “act in furtherance of the offense” was committed in the U.S.; or
- If the “offender” was a U.S. citizen or permanent resident

Personal jurisdiction on the facts in TianRui, 661 F.3d 1322?
MEANWHILE, NON-DTSA CASES CONTINUE

Computer Fraud and Abuse Act

- *U.S. v. Nosal*, 844 F.3d 1024 (9th Cir. 2016): once authorization is revoked, later access is improper

Threatened misappropriation


Royalty measure of damages

- *MacDermid v. Cortron*, 833 F.3d 172, 191 (2d Cir. 2016): expert could assume cost of development as a floor
THANK YOU

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