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Will California lawyers embrace federal trade secrets law?

By Arash Beral

With growing bipartisan support, Congress is inching towards the passage of legislation that would provide litigants a federal civil right of action for the theft of trade secrets. If enacted, the latest version of the Defend Trade Secrets Act of 2015 would finally recognize trade secrets as one of the “big four” intellectual property assets (along with copyrights, patents and trademarks) worthy of federal protection. But, as with the passage of any legislation, questions abound concerning whether trade secrets practitioners will favor this new federal private right of action over its state counterpart.

For the moment, the California Uniform Trade Secrets Act exclusively governs trade secrets claims in this state. Like the proposed DTSA, the UTSA provides plaintiffs remedies, including injunctive relief, damages and, in certain cases, attorney fees, for the misappropriation of trade secrets. But the similarities between the two end there. The significant differences include:

Subject matter jurisdiction: For a plaintiff to bring and maintain a UTSA claim in federal court, it must either satisfy diversity jurisdiction or (in rare cases) supplemental jurisdiction. The DTSA, however, provides for original federal question jurisdiction so long as the trade secret is “related to a product or service used in, or intended for use in, interstate or foreign commerce.” This interstate commerce requirement acts as a potential hurdle to a litigant’s ability to establish a claim under the DTSA, and serves as a federal gatekeeper preventing a stampede of trade secrets litigation into the federal court system. Accordingly, practitioners may be better served not proceeding with a DTSA claim given the potential of dismissal or an expensive appeal.

Civil seizure: Perhaps the largest distinction between the DTSA and the UTSA is the former’s civil seizure provision. This provision allows for the issuance, on an ex parte basis, of “an order providing for the seizure of property necessary to prevent the propagation or dissemination of the trade secret that is the subject of the action.” Aside from requiring that any civil seizure order be as narrowly tailored as possible and for the seizure to “be conducted in a manner that minimizes any interruption of the business operations of third parties,” the DTSA creates a claim for relief arising out of a “wrongful or excessive” seizure order. That claim includes the request to seek and recover lost profits, cost of materials, loss of goodwill, and punitive damages in instances where the seizure was sought in bad faith. Reasonable attorney fees are likewise recoverable, unless the court finds extenuating circumstances. DTSA thus stands as a strong check against requests for broad and potentially intrusive seizure orders. Still, where the seizure of misappropriated information or property is critical, a claim under the UTSA — under which courts are given broad discretion to issue temporary restraining order/preliminary injunctive relief — may be in plaintiff’s better interest.

Statute of limitations: While the statute of limitations under the UTSA is three years, the DTSA provides a longer five-year period. The likelihood of this difference having a significant effect is limited, because trade secrets claims are routinely brought immediately upon discovery of the misappropriation. On a questionable case involving statute of limitations issues, however, a plaintiff can take advantage of the longer limitations period under the DTSA.

Standing: The DTSA provides

that only an “owner” of a trade secret may bring a civil action. There is some authority under UTSA, however, that would allow a claim by a “licensee,” in addition to an owner, to pursue a claim. *Jasmine Networks Inc. v. Super. Ct.*, 180 Cal. App. 4th 980, 986 (2009); CACI 4401. Though the implications of the DTSA’s silence on this issue are unclear, this stands as another dichotomy.

Trade secret identification: California Code of Civil Procedure Section 2019.210 requires a plaintiff to “identify the trade secret with reasonable particularity” before commencing discovery in any action under the UTSA. The Federal Rules of Civil Procedure contains no similar provision, thereby potentially removing a tool in the defense’s tool chest for claims brought under the DTSA.

Inevitable disclosure doctrine: Under the inevitable disclosure doctrine, a plaintiff can establish a misappropriation claim by demonstrating that the defendant’s new employment will inevitably lead him to rely on — and misappropriate — the plaintiff’s trade secrets. California has wholly rejected this doctrine, and under the UTSA, it has no validity. *FLIR Systems Inc. v. Parrish*, 174 Cal. App. 4th 1270, 1277 (2009). The DTSA contains language in connection with the grant of an injunction order “provided the order does not prevent a person from accepting an offer of employment under conditions that avoid actual or threatened misappropriation.” Some argue that this language serves as an endorsement of the inevitable disclosure doctrine, which would be a striking departure from the UTSA. If this view prevails, the DTSA will give plaintiffs a major advantage over the UTSA. But it is doubtful that the federal courts will interpret the DTSA this way given the intended

narrow and limited scope of the DTSA and the DTSA’s provision entitling only an “aggrieved” party to advance a DTSA action.

Preemption: As California practitioners are well aware, the UTSA “preempts common law claims that are ‘based on the same nucleus of facts as the misappropriation of trade secrets claim for relief.’” *K.C. Multimedia Inc. v. Bank of America Technology & Operations Inc.*, 171 Cal. App. 4th 939, 958-59 (2009). The DTSA is silent on this subject and the question of whether it, like the UTSA, will preempt state tort claims arising from the same nucleus of facts remains outstanding.

Exemplary damages: While the UTSA only allows for double exemplary damages, the DTSA allows for treble exemplary damages. In egregious cases, where the misappropriation can be shown to be willful and malicious, a DTSA claim favors the plaintiff over the UTSA.

If the DTSA is enacted, trade secret practitioners will have, for the first time, a choice to bring a state or federal claim (or both, as nothing appears to prevent a litigant from pleading both claims under proper circumstances). Open questions concerning how the DTSA’s provisions will ultimately be interpreted and enforced may demand continued reliance on the UTSA and its 30-year history of jurisprudence. However, under the right set of facts, a DTSA claim may be more advantageous to plaintiffs seeking a federal court venue in which to litigate their claims.



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