Inside Counsel
APRIL 28, 2016
BUSINESS INSIGHTS FOR THE LEGAL PROFESSIONAL

An ALM Website
www.insidecounsel.com

by ANTHONY STIEGLER, ADAM GERSHENSON, LIZ TRAFTON

Trade secret bill could redefine protection for company secrets

THE UNITED STATES SENATE AND the House of Representatives have now approved the Defend Trade Secret Act ("DTSA), all-but ensuring that the law of the land will soon provide federal court jurisdiction for trade secret claims. The Senate passed the DTSA unanimously earlier this month, and on April 27, 2016 the House approved the Act, which aims to provide stronger protections for trade secrets. The White House, too, has already expressed support, and the DTSA now needs only the President's authorization to become law. Accordingly, technology, life-science, and consumer product companies should prepare for substantial shifts in where—and how—they litigate trade secret disputes.

If approved, the DTSA's jurisdictional grant will (a) re-shape the timing and strategy for both plaintiffs and defendants in trade secret litigation; (b) provide supplemental jurisdiction for traditional state law claims that often accompany trade secret disputes; and (c) create parallel state and federal bodies of trade secret law, with the potential for divergent doctrines.

This article, the second in a series of three, addresses the strategic implications of the DTSA's jurisdictional grant. To see the first article in the series, which addressed why the DTSA has garnered widespread support from

high-tech, life-sciences, and consumer goods companies, please see: https://www.cooley.com/73108

The DTSA's jurisdictional contours may profoundly shape trade secret litigation

Unlike federal jurisdiction for patent, copyright and trademark cases, which arises directly from the United States Constitution and federal statutes, trade secret jurisdiction under the DTSA depends upon the Commerce Clause. As a result, the Act applies only to trade secrets "related to a product or service used in, or intended for use in, interstate or foreign commerce." For businesses of a certain size and scope, this standard may be easily met, but the requirement can nonetheless impact the litigation in at least three ways.

First, trade secret defendants may raise subject matter jurisdiction challenges early in the case at the motion to dismiss stage, or later if the challenge is not waived. Often trade secret plaintiffs try to avoid identifying their alleged trade secrets with particularity for as long as possible, hoping to shape their case to later discovery admissions. Conversely, defendants typically move to compel a plaintiff to identify its alleged trade secrets as early as possible so that the sands stop shifting. Freezing the plaintiff's position is critical to mounting a defensive attack. An early jurisdictional challenge under the DTSA will force the plaintiff to satisfy its burden to show that the alleged secrets relate to interstate commerce, and to do so it may be necessary to identify the alleged secrets.

Second, because a federal court cannot act unless it is satisfied that it has subject matter jurisdiction, defendants may raise early challenges simply to delay proceedings. Even relief under the DTSA's *ex parte* seizure provision, the topic of the forthcoming final article in this series, could be vulnerable to jurisdictional attacks. For example, defendants could seek to delay the application of a seizure order by submitting emergency motions to reconsider the court's jurisdiction.

Third, until the DTSA case law develops, plaintiffs will face uncertainty regarding precisely what they will need to show to satisfy the federal pleading requirements. Traditionally, trade secret plaintiffs who reached federal court through diversity or supplemental jurisdiction have been given leniency in pleading sufficient facts to meet the plausibility standard that governs federal claims. However, given the jurisdictional requirement, plaintiffs may be required to disclose and plead sufficient facts about the products or services to which their alleged trade secrets relate. These additional facts should provide a defendant with avenues for research and attack, such as assessing the public domain patent landscape and publications about the products and/or services to support a defense that the alleged secrets are anything but secret.

Supplemental jurisdiction opens the door to traditional state law claims

While defendants may challenge a plaintiff's core trade secret claims under the DTSA, the DTSA may simultaneously usher traditional state law claims into federal court under the umbrella of supplemental jurisdiction. Claims that frequently accompany trade secret allegations tied to rogue or departing employees, such as breach of contract, tortious interference, and state unfair competition claims, will likely be tried alongside DTSA claims in federal court. While such claims may be brought in federal court today under diversity jurisdiction, the DTSA eliminates the need to meet diversity requirements, and provides a direct path to the federal courthouse.

The DTSA's lack of preemption may undermine the goal of uniform trade secret law

DTSA supporters cite the need for uniformity in trade secret law. The DTSA, however, contains no preemption clause, and state law governing trade secrets remains in effect. The DTSA thus leaves in place state law doctrinal variations, allowing the federal and state legal regimes to develop in parallel, or diverge. Particularly in the early stages of DTSA litigation, this may enhance uncertainty, and could also encourage forum shopping, as plaintiffs elect the venue they expect will be most amenable to their claims.

Conclusion

The jurisdictional scope of the DTSA may significantly impact trade secret litigation. The DTSA may require plaintiffs to show their cards at a much earlier stage in the dispute, and may also enable them to bring traditional state law claims in federal court. Anticipating these jurisdictional developments, options and trends is important to companies who will likely face, or bring, these DTSA claims in the very near future.

CONTRIBUTING AUTHORS

ANTHONY M. STIEGLER
Partner
Phone: +1 858 550 6035
astiegler@cooley.com

ADAM GERSHENSON
Associate
Phone: +1 617 937 2379
agershenson@cooley.com

LIZ TRAFTON
Associate
Phone: +1 617 937 2409
etrafton@cooley.com

Cooley