Expert Analysis

The Where, When And What Of DTSA Appeals: Part 1

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Federal trade secret litigation can be as costly and complex as patent litigation. Unlike patent litigation, however, there has been virtually no appellate guidance on the meaning and scope of the Defend Trade Secrets Act in the two years since it was enacted. To date, just four U.S. Courts of Appeals panels have even briefly addressed the law.[1]

This absence of appellate case law is perhaps unsurprising, given how recently the DTSA was enacted. But given the millions of dollars — and ownership of prized innovations — at stake in trade secret proceedings, practitioners would be well-advised to be thinking to the future about where in the country such appeals will occur, when appellate decisions will be issued, and what issues appellate courts will focus on. This pair of articles will consider those questions. The first part discusses the limited appellate case law, as well as where and when the appellate decisions may be issued. The second part will dive into the "what" question, looking to the history of how other federal intellectual property statutes have been interpreted for guidance.

Existing Law

The DTSA's scope and the meaning have long been a subject of interest for the bar and academia, but the law has received relatively little analysis from the bench.[2] Indeed, there have only been two appellate decisions that have squarely interpreted the statute's language. Both were interlocutory appeals that challenged preliminary injunctions.

In First Western Capital Management, Co. v. Malamed, First Western brought suit under both the DTSA and the Colorado trade secrets law against a former employee accused of stealing customer lists.[3] The Tenth Circuit reversed the district court's grant of a preliminary injunction to First Western, holding that a violation of the DTSA does not create a presumption of irreparable harm.

Similarly, in Fres-co Systems USA Inc. v. Hawkins, Fres-co brought suit under both the DTSA and Pennsylvania law against an employee accused of stealing confidential information (such as customer lists and long-term strategies).[4] The Third Circuit, in an unpublished decision, remanded the preliminary injunction to the district court for further analysis. In doing so, it explained that showing irreparable harm for purposes of a

DTSA suit can be satisfied even by a threat of misappropriation but that the likelihood of success showing requires proof that the supposedly confidential information fell within the DTSA.

Two other opinions, both from the Ninth Circuit, have briefly mentioned the DTSA. Interestingly, both were federal criminal cases, and in both instances, the panel noted that the DTSA had changed the definition of a trade secret for both criminal and civil purposes but declined to apply the new definition because the events of the case predated the DTSA's 2016 enactment.[5]

While it is difficult to draw firm conclusions based on such a small sample, these cases suggest several potential trends. First, it is notable that Fres-co and Malamed both involved trade secret claims under federal and state law. While the DTSA largely follows the language of the Uniform Trade Secrets Act adopted by most states, there are several important differences, such as what kind of information constitutes a "trade secret."[6] Future appellate decisions may center on how the different wording in the state and federal laws leads to different outcomes. Second, the Ninth Circuit cases raise the important point that the federal law criminalizing theft of trade secrets now shares the same definition of trade secret — and, for that matter, the same definition of "misappropriation" — as the civil provisions. This is important because the rule of lenity might push appellate courts to read those definitions narrowly, even if the case arises in the civil context.[7]

Where

Unlike patent litigation, a DTSA suit could in theory be filed in any federal or state trial court and appealed up to any state or federal appellate court. But the existing data suggests that DTSA appeals will be concentrated in a narrow set of jurisdictions. First, and somewhat amazingly, the DTSA has almost never been invoked in a published state court decision.[8] Second, as of May 2018, the majority of DTSA decisions available in commercial databases like Westlaw sprung from federal district courts in just six states — California, Florida, New York, Texas, Illinois and Pennsylvania — with the most in California. Indeed, decisions from district courts located in the Ninth Circuit make up over a quarter of all publicly available rulings that cite the DTSA statute.

Numerically speaking, then, the Ninth Circuit seems most likely to develop a body of case law interpreting the DTSA, as it famously has in other areas of intellectual property.[9] As a corollary, it seems exceedingly unlikely there will be any significant state appellate decisions interpreting DTSA in the near future. In the future, plaintiffs may be more likely to bring a suit in federal court (and defendants more likely to seek removal) in order to avoid the unpredictability created by the lack of state precedent. This concern is, however, mitigated somewhat by the willingness of state courts to defer to federal case law when interpreting federal statutes.[10]

When

Another important issue is when to expect the first significant wave of appellate decisions. This is a difficult question to answer precisely, because case-specific issues may speed or slow individual cases' progress on the road to appeal. But some guidance can be drawn from the pace at which other federal laws related to intellectual property were interpreted by the appellate courts.

For example, the America Invents Act, which dramatically amended existing patent law, was enacted in September 2011. The first appellate decision interpreting the AIA (and which involved conduct that occurred after the law was enacted) appears to have been issued about two years later; it granted a mandamus petition ordering the district court to reconsider its decision on a motion to transfer venue and sever certain claims.[11] The first U.S. Supreme Court decision interpreting the AIA's language, however, only came in June 2016, when the court upheld a U.S. Patent and Trademark Office regulation involving a claim construction standard.[12]

The Digital Millennium Copyright Act, which was enacted in October 1998, presents a similar history. It took about two and a half years for the first substantive decision to be issued, a Fourth Circuit ruling that interpreted one of the Act's safe harbor provisions for internet service providers.[13] Once the dam was broken, published decisions from the Ninth and Second Circuit flowed in a matter of months. To this day, the U.S. Supreme Court

has not substantively interpreted the act, although it did recently call for the views of the solicitor general on a petition for certiorari that was subsequently denied.[14]

One last example. The Copyright Act of 1976, which went into effect in January 1978, was first substantively invoked nearly three years after its effective date in a published Second Circuit decision.[15] The act was not substantively interpreted by the Supreme Court until January 1984.[16]

These rulings suggest a rough pattern in the timing of appeals. It takes two to three years for the first case to rise up to the court of appeals and over five years before the statute is subject to Supreme Court review — if ever. This timing matters because it suggests how long DTSA case law will remain unsettled, governed primarily by persuasive — but not binding — district court decisions rather than instructive appellate case law.

Conclusion

Despite the limited information available, we can make some educated guesses about the future of DTSA appeals. If current trends hold, the cases will likely involve both the DTSA and state trade secret law. Most will be heard in federal court and a significant number in the Ninth Circuit. And, given that the DTSA was enacted just about two years ago, we can expect more substantive appellate decisions to be issued in the near future.

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[1] See First Western Capital Management Co. v. Malamed,874 F.3d 1136 (10th Cir. 2017);Fres-co Systems USA, Inc. v. Hawkins, 690 F. App'x 72 (3d Cir. 2017);see alsoUnited States v. Liew, 856 F.3d 585 (9th Cir. 2017);United States v. Nosal, 844 F.3d 1024 (9th Cir. 2016). Two other decisions have referenced the DTSA only as part of a list of claims raised in the underlying complaint.See Waymo LLC v. Uber Technologies, Inc., 870 F.3d 1342 (Fed. Cir. 2017);FCA US LLC v. Bullock, 2018 WL 2753160 (6th Cir. June 8, 2018).

[2] For example, the Westlaw citing references for the DTSA statute (18 U.S.C. §1836) from May 11, 2016 (the day the law went into effect) to May 22, 2018 include 398 secondary sources and only 236 judicial decisions. The authors are partially to blame for this disparity.SeeJames Dowd, Greg Lantier, Rachel Weiner Cohen & Thomas G. Sprankling,Federalizing Trade Secret Protection, Corporate Counsel (May 23, 2016);see alsoJames M. Dowd, Gregory H. Lantier & Thomas G. Sprankling,Cyberespionage And Civil Suits, Law360 (July 14, 2014).

[3] First Western Capital Management Co. v. Malamed, 874 F.3d 1136 (10th Cir. 2017).

[4] Fres-co Systems USA, Inc. v. Hawkins, 690 F. App'x 72 (3d Cir. 2017)

[5] United States v. Liew, 856 F.3d 585, 597 (9th Cir. 2017);United States v. Nosal, 844 F.3d 1024, 1042 (9th Cir. 2016).

[6] While similar, the UTSA and DTSA use slightly different wording.Compare18 U.S.C. § 1839(3) (trade secret encompasses "all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing")withNational Conference of Commissioners on Uniform State Laws, Uniform Trade Secrets Act with

1985 Amendments §1(4) (1985) ("information, including a formula, pattern, compilation, program, device, method, technique, or process").

[7] See, e.g., United States v. Thompson/Center Arms Co., 504 U.S. 505, 518 n.10 (1992) (plurality op.) (applying rule of lenity to a tax statute with "criminal applications" even though the Court was "constru[ing] the statute … in a civil setting");see also Leocal v. Ashcroft, 543 U.S. 1, 11 n.8 (2004) ("Because we must interpret the statue consistently, whether we encounter its application in a criminal or noncriminal context, the rule of lenity applies.").

[8] Westlaw and Lexis searches for state court cases issued between May 11, 2016 and May 22, 2018 using the terms "18 U.S.C §1836," "Defend Trade Secrets Act," or "DTSA" reveal a mere two state cases that reference the DTSA only in passing.

[9] As former Ninth Circuit Judge Alex Kozinski once observed, "[f]or better or worse, wearethe Court of Appeals for the Hollywood Circuit."White v. Samsung Electronics America, Inc., 989 F.2d 1512, 1521 (9th Cir. 1993) (dissent from denial of rehearing en banc).

[10] E.g., Barrett v. Rosenthal, 146 P.3d 510, 526 (Cal. 2006) (federal court decisions on federal questions "are persuasive and entitled to great weight.").

[11] In re Nintendo Co. Ltd., 544 F. App'x 934 (Fed. Cir. 2013).

[12] Cuozzo Speed Technologies, LLC v. Lee, 136 S. Ct. 2131 (2016);see also Halo Electronics, Inc. v. Pulse Electronics, Inc., 136 S. Ct. 1923, 1934-1935 (2016) (rejecting argument that AIA implicitly ratified Federal Circuit doctrine on enhanced damages).

[13] ALS Scan, Inc. v. RemarQ Communities, Inc., 239 F.3d 619 (4th Cir. 2001).

[14] Lenz v. Universal Music Corp., 137 S. Ct. 416 (2016);see also Lenz v. Universal Music Corp., 137 S. Ct. 2263 (2017) (denying certiorari).

[15] Durham Industries, Inc. v. Tomy Corp., 630 F.2d 905 (2d Cir. 1980).

[16] Sony Corp. of America v. Universal Studios, 464 U.S. 417 (1984).