

The Where, When And What Of DTSA Appeals: Part 2

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Federal trade secret litigation is on the rise, but to date there is little appellate guidance about the scope and meaning of the Defend Trade Secrets Act. In Part one of this series, we discussed the limited appellate case law, as well as where and when the appellate decisions may be issued. Part two takes aim at a tougher question—what kinds of questions will the early DTSA appellate decisions resolve?



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To make these predictions, we consider how courts have interpreted other intellectual property statutes. First, the early appellate decisions involving the America Invents Act, or AIA, the Digital Millennium Copyright Act, or DMCA, and the Copyright Act of 1976 include certain common threads — careful explanations of the new statute’s innovations, attempts to apply the new statutory scheme to new technology, and constitutional challenges. We expect that these themes may also play out as appellate courts interpret the DTSA. Second, a significant Patent Act issue in recent years has been the extent to which the statutory scheme differs from common law principles. An analogous tension may exist as courts try to determine whether the principles governing the Uniform Trade Secrets Act, or UTSA, also apply to the DTSA.



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Comparing Early Appellate Decisions Interpreting Other Intellectual Property Statutes

Looking at the first five years of appeals court decisions interpreting the AIA, the DMCA, and the Copyright Act of 1976 provides some guidance into what types of early rulings might be issued interpreting the DTSA.

In our review of these cases, we have observed three basic themes. The first is that early appellate decisions tend to provide a detailed explanation of the workings of the law’s new innovations — i.e., provisions that were not modeled on prior statutes. Such an explanation provides a valuable service to future litigants and courts by laying out a view for how the statutory text should function in practice.

For example, the very first DMCA appellate decision goes into significant detail explaining what it means for a copyright holder to comply with the requirement of notice to — as well as the safe harbor provisions for — internet service providers, which were an important new feature of the statute.[1] Similarly, several of the early decisions regarding the Copyright Act of 1976 focus on the new rules springing from that statute, such as the requirement that cable operators pay royalties when they broadcast copyrighted material and the provision allowing copyright holders to terminate licenses after a set period of time.[2] And the U.S. Supreme Court’s recent decision in *Cuozzo Speed Technologies LLC v. Lee* takes great pains to detail the scope of an appellate court’s ability to review an inter partes review determination by the Patent and Trademark Office.[3]

In the DTSA context, it would be natural for the early appellate decisions to provide a deep dive into the meaning and scope of the *ex parte* seizure provision. That provision does not have a counterpart in the state-level UTSA and, as we have explained, “would allow alleged victims of trade secret theft to seek a . . . court order ‘providing for the seizure of property necessary to prevent the propagation or dissemination of the trade secret’ without providing advanced notice to any other party.”[4] An opinion providing binding guidance on how this extraordinary remedy can be used seems likely, given the harsh consequences of its invocation.

A second theme is that early appellate decisions have analyzed how the new statutory scheme applies to equally new technology. (This is perhaps unsurprising, given that aspects of the Copyright Act of 1976 and the DMCA were enacted specifically with such new technology in mind and that the value of new technology may disincentivize settlement.) For example, several of the early DMCA cases involved what was state-of-the-art technology in the early 2000s — DVDs and Napster-like internet file-sharing services.[5] Similarly, several of the early Copyright Act cases involved video games and computer operating systems.[6]

In the context of the DTSA, we can expect at least some early appeals to involve high-value, cutting-edge technology that is not easily protected by patent or copyright law.[7] To take just one example, closely held computer algorithms like the ones that power major search engines may be unpatentable as abstract ideas but have such economic value as to encourage prolonged trade secret litigation to avoid their release to the public.

Finally, all three statutes faced early (and unsuccessful) challenges to their constitutionality. Many readers are likely familiar with the Supreme Court’s recent decision in *Oil States Energy Services LLC v. Greene’s Energy Group LLC*. [8] That ruling upheld the constitutionality — under the Seventh Amendment and Article III — of an AIA provision allowing the Patent and Trademark Office to reconsider an already-issued patent claim. Similarly, an early DMCA appeal argued that the provision barring trafficking of a technology design to circumvent device encryption is unconstitutional under the First Amendment (because computer code constitutes “speech”) and the IP clause (because encryption could effectively take works out of the public domain and thus violate the rule that Congress can only grant copyrights for a “limited time”). [9] The Copyright Act of 1976 also faced an IP clause challenge to its provision allowing secure tests like the Multistate Bar Exam to be copyrighted even if the author does not deposit a complete copy with the Library of Congress (on the grounds that the scope of the copyright monopoly is not clear if a member of the public is unaware precisely what the test covers). [10]

One could imagine similar constitutional challenges to the DTSA. For example, it is entirely possible a litigant will challenge the DTSA’s definition of a trade secret as void for vagueness under the due process clause. The definition that previously appeared in the DTSA’s criminal counterpart — the Economic Espionage Act — was subject to several such challenges, although none succeeded. [11] Given that the DTSA’s definition of the term differs from the UTSA’s or the earlier version of the Economic Espionage Act’s, it is ripe for a challenge.

Another unexplored area is whether the federal trade secrets law — which does not set a time limit on how long a company or individual can maintain a trade secret — conflicts with the provision of the IP clause providing that Congress

only has the power to grant “inventors the exclusive right to their respective ... discoveries” for “limited times.”[12] The Supreme Court has indicated in a related context that even Congress does not have the power to create “a regime of perpetual copyrights.”[13] And while the court has ruled that state trade secret laws do not violate the clause — because the only limitation the clause places on states “in regulating the area of patents and copyrights [is that] they do not conflict with the operation of the laws in this area passed by Congress” [14] — the court has had no occasion to consider the limits of Congress’ authority.

Comparing Recent Patent Act Jurisprudence

One recent theme in patent case law is whether certain well-established defenses to infringement under federal common law remain available under the statute. The Supreme Court recently ruled, for example, that laches is unavailable in patent infringement actions because 35 U.S.C. § 286 establishes that “a patentee may recover damages for any infringement committed within six years of the filing of the claim.”[15] On the other hand, the court also recently rejected the “conditional sale” exception to the common law rule of patent exhaustion, which had been part of federal common law for decades.[16]

Because trade secret protection has its roots in the common law and the DTSA enters a legal space previously occupied exclusively by state law, one might expect that early appellate decisions will similarly wrestle with such issues.[17] But trade secret doctrine lacks the centuries of background common law that governs modern patent rulings. The prevailing state law addressing misappropriation of trade secrets dates back only to 1979, when the UTSA was first proposed.

The UTSA aimed to harmonize state trade secret law by establishing a common definition of “trade secret” and “misappropriation.” Even though almost all states have adopted the UTSA, however, significant divergences in state law have emerged. For example, different states have differing definitions for points as fundamental as what constitutes a “trade secret” and what constitutes “misappropriation.” States have also split on standing requirements, evidentiary burdens and even whether the UTSA preempts common law tort claims.

Early appeals may thus involve claims under both the DTSA and a state’s version of the UTSA will provide for an opportunity to explore the differences between those two statutes and, potentially, common law claims of misappropriation. But the DTSA by its express terms does not preempt state law remedies,[18] appellate courts will not be adjudicating whether the long-standing interpretation of one body of rules controls a newly enacted statute. The key question instead will be whether the DTSA and UTSA overlap entirely or whether there is sufficient daylight between the two remedies such that a litigant may prevail under one theory but not the other.

Conclusion

If the DTSA’s doctrinal progress is analogous to other IP statutes, we can expect early appellate decisions to lay out the metes and bounds of the ex parte seizure provision, involve new technology like computer algorithms that are best

protected under trade secret law, and analyze the DTSA's constitutionality. We will also likely see early decisions explaining how the DTSA provides remedies where no such remedy exists under the UTSA — and vice versa.

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

[2] E.g., *National Ass'n of Broadcasters v. Copyright Royalty Tribunal*, 675 F.2d 367 (D.C. Cir. 1982); *Burroughs v. MGM Inc.*, 683 F.2d 610 (2d Cir. 1982).

[3] E.g., *Cuozzo Speed Techs. LLC v. Lee*, 136 S. Ct. 2131, 2136-2139, 2142 (2016); see also *SAS Institute Inc. v. Iancu*, 138 S. Ct. 1348 (2018).

[4] Dowd, Lantier, Cohen & Sprankling, *Federalizing Trade Secret Protection: A Close Look at the Ex Parte Seizure Provision*, *Corporate Counsel*, May 23, 2016.

[5] *Universal City Studios Inc. v. Corley*, 273 F.3d 429 (2d Cir. 2001); *A&M Records Inc. v. Napster Inc.*, 239 F.3d 1004 (9th Cir. 2001); *In re Aimster Copyright Litigation*, 334 F.3d 643 (7th Cir. 2003).

[6] E.g., *Atari Inc. v. North American Philips Consumer Electronics Corp.*, 672 F.2d 607 (7th Cir. 1982); *Midway Mfg. Co. v. Artic Int'l Inc.*, 704 F.2d 1009 (7th Cir. 1983); *Apple Computer Inc. v. Franklin Computer Corp.*, 714 F.2d 1240 (3d Cir. 1983).

[7] E.g., Schechter, *The changing trade secret and patent equilibrium*, *TechCrunch*, June 20, 2016 (“[C]ompanies developing software-centric solutions are likely to rely more heavily on trade secrets to protect product innovations that can no longer be patented.”)

[8] 138 S. Ct. 1365 (2018).

[9] Universal City Studios, 273 F.3d 429. The IP clause — sometimes called the copyright clause — is Article I, § 8, cl. 8, which provides that Congress has the power “[t]o promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.”

[10] National Conference of Bar Examiners v. Multistate Legal Studies Inc. , 692 F.2d 478 (7th Cir. 1982).

[11] E.g., United States v. Chung , 633 F. Supp. 2d 1134 (C.D. Cal. 2009); United States v. Genovese , 409 F. Supp. 2d 253 (S.D.N.Y. 2005); see also Jurrens, Fool Me Once, 28 Berkeley Tech. L.J. 833, 840-841 (2013) (collecting cases). As we noted in Part I, the Economic Espionage Act now shares the same definition of trade secret as the DTSA. E.g., United States v. Liew , 856 F.3d 585, 597 (9th Cir. 2017).

[12] U.S. Const. Art. I, § 8, cl. 8 (emphasis added). The DTSA was enacted under the commerce clause rather than the IP clause, but there is a reasonable argument that Congress cannot do under one provision of the Constitution what is prohibited under another. See, e.g., Hickey, The Copyright/Commerce Clause Collision, 82 U. Cin. L. Rev. 1, 3-4 (2013).

[13] Eldred v. Ashcroft , 537 U.S. 186, 209 (2003).

[14] Kewanee Oil Co. v. Bicron Corp. , 416 U.S. 470, 479 (1974).

[15] SCA Hygiene Prods. Aktiebolag v. First Quality Baby Prods. LLC , 137 S. Ct. 954, 961 (2017).

[16] Impression Prods. Inc. v. Lexmark Int’l Inc. , 137 S. Ct. 1523 (2017).

[17] Prior to the DTSA, trade secrets were only protected at the federal level by criminal laws such as the Economic Espionage Act, 18 U.S.C. § 1832.

[18] 18 U.S.C. § 1838.