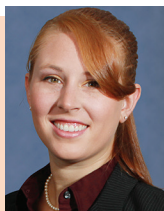


The Defend Trade Secrets Act at Year One



On March 11th of this year, the Defend Trade Secrets Act (DTSA) celebrated the one-year anniversary of its enactment. The DTSA, 18 U.S.C. §1831, *et seq.*, expanded the federal legal protection for holders of trade secrets presently offered to holders of copyrights, trademarks, and patents. As of April



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2017, approximately 129 DTSA cases have been filed in federal court since the DTSA's enactment. Boris Zelkind, Daniel Hughes & Clayton Henson, "The Defend Trade Secrets Act—A Year in Review," *Law360* (05/10/2017, 5:53PM EDT).

Described by some legal commentators as the “greatest expansion of IP law” in years, this anniversary marks an appropriate time to review the DTSA’s first year and how federal courts have been interpreting some of its more salient provisions. *See, e.g.*, Eric Goldman “The New ‘Defend Trade Secrets Act’ is the Biggest IP Development in Years,” *Forbes* (04/28/2016, 1:04 PM). In particular, this first year has given practitioners insight on how courts are considering motions for *ex parte* seizure, any retroactivity of the DTSA, and the DTSA’s pleading standard. These early opinions are instructive both to defendants, who are opposing claims under the DTSA, and DTSA claimants, who are seeking to defend their intellectual property rights. This article will address certain provisions of the DTSA and how federal courts have handled these early cases and challenges, focusing primarily on the DTSA’s *ex parte* seizure process, pleading standard, timing of the misappropriation, and whistleblower immunity provisions.

Ex Parte Seizures

The DTSA is largely modeled after the Uniform Trade Secrets Act, which has been adopted by many states. However, there are notable departures from the Uniform Trade Secrets Act, perhaps none of which is more controversial than the DTSA's allowance for *ex parte* civil seizures.

The DTSA provides: “[b]ased on an affidavit or verified complaint... the court may, upon ex parte application but only in extreme circumstances, issue an order providing for the seizure of property necessary to prevent the propagation or dissemination of trade secret that is the subject of the action.” 18 U.S.C. §1836(b). In order to minimize the potential for abuse, 18 U.S.C. 1836 provides eight requirements that must be met before the seizure order will be granted. *Id.* at §1836(b)(2)(A)(ii). These requirements are establishment by the plaintiff that (1) an injunction under Rule 65 would be insufficient; (2) it would suffer “immediate and irreparable injury” if the seizure is not or-

dered; (3) the harm of denying the application for seizure outweighs the harm to the person affected by the seizure or any third parties; (4) it is likely to be successful in showing that (a) the information is a trade secret and (b) the person subject to the seizure order misappropriated the trade secret or conspired to use inappropriate means to misappropriate the trade secret; (5) the person subject to the seizure has actual possession of the trade secret or property to be seized; (6) the matter to be seized is described with reasonable particularity; (7) the person subject to the seizure would destroy, move, hide, or otherwise make inaccessible the matter if the person was given notice prior to the seizure; and (8) it has not publicized the requested seizure. *Id.* In addition to these provisions, Section 1836 also mandates numerous inclusions in the order for the seizure to help protect any person who is subject to the seizure order. *Id.* at §1836(b)(2)(B). Despite these protections, many were concerned that the seizure provisions could be abused. Yet, early decisions on the seizure provisions indicate that courts appreciate the severity of the civil seizure remedy and are reluctant to issue orders under this section.

At the time of writing in May 2017, only one publicly available opinion has been published that granted a seizure under the DTSA. The order was issued by the Southern District of New York in *Mission Capital Advisors, LLC v. Romaka*. Case No. 1:16-cv-05878-LLS (S.D.N.Y. Jul. 29, 2016). In *Mission Capital*, the plaintiff applied for an *ex parte* seizure and was first denied. Instead, the district court granted a temporary restraining order (TRO), barring the defendants from accessing, disclosing, or copying the trade secrets, and ordered notice of service by personal service and email. After the defendant failed to acknowledge service or the TRO, and subsequently failed to appear in court for the TRO hearing, the district court found that it was unlikely that the defendant would comply with an order issued under Rule 65. Finding the other requirements of the statute met, the court granted the seizure.

Other than *Mission Capital Advisors*, only one other case is presently known to have involved an issued seizure granted by a Florida federal court. However that

case, as with many cases related to trade secrets, is presently under seal. But, most seizure requests under the DTSA have been unsuccessful.

First, courts have expressed unwillingness to order a seizure when the affected party had no history of concealing evidence or disregarding court orders in the past. See *OOO Brunswick Rail Management v. Sultanov*, Case No. 5:17-cv-00017-EJD (N.D.Cal. Jan. 6, 2017); *Jones Printing, LLC v. Adams Lithographing Co.*, No. 1:16-cv-442 (E.D.Tenn. Nov. 3, 2016); *Baleria Carribean Ltd. Cor. v. Calvo*, Case No. 1:16-cv-23300-KMV (S.D.Fla. Aug. 5, 2016) (“[T]he plaintiff must show that the defendant, or persons involved in similar activities, had concealed evidence or disregarded court orders in the past.”); *Dazzle Software II, LLC v. Kinney*, No. 2:16-cv-12191-MFL-MLM (E.D.Mich. Jun. 18, 2016) (the court was not “persuaded that there had been a showing that the defendants would not comply with an order” under Rule 65). Second, at least one court has declined to order a seizure when the court was unconvinced that the information to be seized was a trade secret. *Digital Assurance Certification, LLC v. Pendolina*, Case No. 6:17-cv-72-Orl-31TBS (M.D.Fla. Jan. 23, 2017). Third, courts have not been inclined to order a seizure when they were uncertain whether the seizure would actually result in the securing of the trade secret. *Dazzle Software*, No. 2:16-cv-12191-MFL-MLM (E.D.Mich. 2016) (“the relief that’s sought here isn’t going to solve the problem... even if he grabbed every single computer I don’t think that would give assurance that there wouldn’t be continued misappropriation”). Other reasons are sure to arise; however, what is apparent is that courts are requiring specific and explicit showings of each factor rather than conclusory or boilerplate allegations of harm, confidentiality, and urgency. See *Jones Printing, LLC v. Adams Lithographing Co.*, No. 1:16-cv-442 (E.D.Tenn. Nov. 3, 2016) (“bare and conclusory application... is insufficient to warrant the extraordinary relief requested”).

It is of note that, in at least one instance, courts have sought to achieve some of the urgency of an *ex parte* seizure without turning to the DTSA’s terms. The Northern District of Illinois in *Magnesita Refractories Co. v. Mishra* issued an *ex parte* tem-

porary restraining order that authorized the seizure of the defendant’s laptop. 2:16-cv-524, 2017 WL 365619 (N.D.Ill. Jan. 25, 2017). See also *Earthbound Corp. v. MiTek USA, Inc.*, C16-1150 RSM, 2016 WL 4418013 (W.D. Wash. Aug. 19, 2016); *Panera, LLC v. Nettles*, 4:16-cv-1181-JAR, 2016 WL 412411 (E.D. Mo. Aug. 3, 2016). The court was explicit in that it did not issue the seizure under the DTSA’s *ex parte* seizure provision, but instead under Federal Rule of Civil Procedure 65’s allowance for injunctions and restraining orders. The court held that a request for *ex parte* seizure should not be granted unless it is apparent from the facts that an order for restraining order under Rule 65 would not work. However, it is arguable whether the *Magnesita* court’s order actually constituted a seizure, as the issued order demanded that the defendant “turn over” his laptop instead of granting the movant the authority to seize the laptop itself. Yet, some courts may look towards Rule 65 to provide some kind of compromise remedy for plaintiffs seeking immediate access to allegedly misappropriated trade secrets, rather than the harsh effects of the DTSA seizure provisions.

In sum, fears that the *ex parte* seizure provision would be misused seem to be mostly assuaged. During the time of the DTSA’s drafting and enactment, Senate Judiciary Chairman Bob Goodlatte described the DTSA’s seizure provisions as being intended for cases where, for example, “a thief sneaks into a facility, steals a trade secret and is headed to the airport to fly to China and sell it.” These early decisions indicate that courts are appreciating that this procedure is intended for use only in unique circumstances. This reluctance to apply the seizure provisions is good news for those companies that are concerned that competitors may attempt to use the seizure provisions wrongfully to inhibit legitimate competition or another improper purpose. Plaintiffs that decide to seek an *ex parte* seizure under the DTSA will have a steep uphill climb to meet its requirements.

Pleading Trade Secret Misappropriation

In bringing a suit under the DTSA, it is elementary that the information sought to

be protected actually qualifies as a trade secret. The DTSA defines “trade secret” as ...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 if: (A) the owner thereof has taken reasonable measures to keep such information secret; and (B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information.

18 U.S.C. §1839(3).

As noted above, at least one court has refused to issue an ex parte seizure on the grounds that it could not reliably ascertain whether the data to be seized was actually a trade secret. *Digital Assurance Certification, LLC v. Pendolina*, Case No. 6:17-cv-72-Orl-31TBS (M.D.Fla. Jan. 23, 2017). Courts have similarly dismissed or granted summary judgment on DTSA claims for failure to plead properly the necessary information to argue the existence of a trade secret.

The Northern District of Illinois addressed the level of particularity needed to plead a trade secret’s existence under the DTSA in *Mission Measurement Corporation v. BlackBaud, Inc.*, Case No. 16-cv-6003, ___ F.Supp.3d ___ (N.D.Ill. Oct. 27, 2017). Herein, the court discussed that “[i]t is not enough to point to broad areas of technology and assert that something there must have been secret and misappropriated,” but trade secrets “need not be disclosed in detail in a complaint... for the simple reason that such a requirement would result in public disclosure of the purported trade secrets.” *Id.* (quoting *Covenant Aviation Sec., LLC v. Berry*, 15 F.Supp.3d 813, 818 (N.D.Ill. 2014); *Composite Marine Propellers, Inc. v. Van Der Woude*, 962 F.2d 1263, 1266 (7th Cir. 1992)).

In sum, “[a]t the pleading stage, plaintiffs need only describe the information and efforts to maintain the confidentiality of the information in general terms.” *Id.* (citing *Scan Top Enter. Co., Ltd. v. Winplus N. Am., Inc.*, Case No. 14-cv-7505 (N.D.Ill. Aug. 19, 2015)). Consequently, the Northern District of Illinois has indicated that

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courts should only dismiss a claim for lack of specificity on the pleadings in the “most extreme cases.” *Id.* (citing *Fire ‘Em Up, Inc. v. Technocarb Equip. Ltd.*, 799 F.Supp.2d 846, 850 (N.D.Ill. 2011)).

In *Raben Tire Co., LLC v. McFarland*, the Western District of Kentucky addressed a case where the plaintiff had failed to meet or approach that standard. Case No. 5:16-cv-00141 (W.D.Ken. Feb. 24, 2017). In *Raben Tire*, the Western District of Kentucky dismissed with prejudice claims of misappropriation under the DTSA for failure to allege sufficient facts to establish the existence of a trade secret. The DTSA defines “trade secret” as, in part, information that the holder has taken “reasonable measures to keep... secret.” 18 U.S.C. §1839(3). In *Raben Tire*, the plaintiff had failed to provide any allegations as to how it protected the information other than just vague assertions of confidentiality. This failure to plead specifically how said information was kept confidential was ultimately fatal to the plaintiff’s claim.

This pleading standard has also been considered in a motion for summary judgment. In *Kuryakyn Holdings, LLC v. Ciro, LLC*, the Western District of Wisconsin considered whether the claimant had alleged sufficient facts to warrant denial of the motion. Case No. 15-cv-703-JDP

(W.D.Wis. Mar. 15, 2017). The *Kuryakyn* court found that, to survive summary judgment, the claimant must “identify documents or information that constitute trade secrets, not simply list categories or general topics of information.” “[A] plaintiff must do more than just identify a kind of technology and then invite the court to hunt through the details in search of items meeting the statutory definition.” *Kuryakyn*, Case No. 15-cv-703-JDP (W.D.Wis. Mar. 15, 2017) (quoting *IDX Sys. Corp. v. Epic Sys. Copr.*, 285 F.3d 581, 584 (7th Cir. 2002)). Having failed to do so, the court granted the summary judgment motion.

Lessons from these cases are not particularly revolutionary. However, they do provide reminders to defendants that—when faced with a DTSA claim—initial requests for injunctions and the claim itself may be capable of defeat in the early stages due to a failure to plead with specificity. There is a chance that the court will allow the plaintiff to amend its claims instead of dismissing with prejudice. See *Biomet 3i, LLC v. Land*, Case No. 1:16-cv-00125-TLS-SLC (N.D.Ind. Feb. 8, 2017); *Chubb INA Holdings Inc. v. Chang*, CA No. 16-2354-BRM-DEA (D.N.J. Nov. 21, 2016); *Chatterplug, Inc. v. Digital Intent, LLC*, Case No. 1:16-cv-4056 (N.D.Ill. Oct. 28, 2016). However, challenging the sufficiency of weak pleadings at the outset may provide dismissal at the outset of the case, before the expenses of discovery are incurred. Defendants looking to defeat a claim under the DTSA should consider whether grounds for a motion to dismiss are available.

Timing of the Alleged Misappropriation

The DTSA was not intended to have retroactive application. Consequently, courts have generally required that the misappropriation must have occurred after the enactment of the DTSA. See, e.g., *Avago Technologies U.S. Inc. v. Nanoprecision Products, Inc.*, Case No. 16-cv-03737-JCS (N.D.Cal. Jan. 31, 2017) (dismissing claims under the DTSA because the claimant failed to allege any facts showing that acts of misappropriation occurred after the passage of the DTSA). However in many instances in trade secret disputes, the harm that results from a misappropriation continues after

the initial disclosure. Consequently, after the DTSA's enactment, a number of plaintiffs sought to amend pre-existing lawsuits to add new claims under the DTSA. Indeed, while the original misappropriation occurred before the DTSA's enactment, some courts have found certain continuing post-enactment conduct actionable. *High 5 Games, LLC v. Marks*, Case No. 13-7161 (JMV) (D.N.J. Jan. 24, 2017); *Syntel Sterlin Best Shores Mauritius Limited v. Trizetto Group, Inc.*, Case No. 15-cv-211 (LGS) (RLE) (S.D.N.Y. Sept. 23, 2016).

The Middle District of Florida considered when a misappropriation occurred for the purposes of bringing a claim under the DTSA in *Adams Arms, LLC v. Unified Weapons Systems, Inc.*, Case No. 8:16-cv-1503-T-33AEP (M.D.Fla. Sept. 27, 2016). The court reviewed Section 2(e) of the DTSA, which specifies that the DTSA applies to "any misappropriation... for which any act occurs" after the effective date. The court also noted that the DTSA omitted the following language from the Act that appears in the Uniform Trade Secrets Act: "With respect to a continuing misappropriation that began prior to the effective date, the [Act] also does not apply to the continuing misappropriation that occurs after the effective date." From these two provisions, the Florida court concluded that, for the claimant to state a plausible claim for relief, it must sufficiently allege that a prohibited "act" occurred after May 11, 2016.

At least one court has found that this alleged "act" must be alleged with some particularity. In *Hydrogen Master Rights, Ltd. v. Weston*, the District Court of Delaware dismissed without prejudice the plaintiff's claim that misappropriations occurred after May 11, 2016, as a "conclusory allegation of continuing use and disclosure." ___ F.Supp.3d ___, 2017 WL 78582 (D.Del. 2017). The court found that, to maintain the action after May 11, 2016, there must be a "sufficiently allege[d] prohibited 'act.'"

Consequently, it appears from these cases that general allegations of continuing use are insufficient to bring a claim under the DTSA for misappropriation that began before May 11, 2016. Given that misappropriation of trade secrets is not always automatically discovered, claims related to behavior that

occurred before May 11, 2016, is very likely to continue to serve as the basis for DTSA claims. Defendants in a DTSA case should diligently examine the pleadings to ensure that behavior is specifically alleged, and that the alleged behavior occurred after the DTSA's enactment. If not, there is an opportunity to have the claim dismissed.

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The court disagreed with the defendant, finding that the defendant's claims of unlawful activity were not certain because the defendant indicated he was only considering a whistleblower action.

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Whistleblower Immunity

The DTSA provides a safe harbor for persons who disclose trade secrets under certain circumstances. Under 18 U.S.C. §1833, an individual may be protected from criminal or civil liability for disclosing a trade secret if the disclosure is made in confidence to a government official (for reporting or investigating a violation of the law) or attorney (for use of the information in an anti-retaliation lawsuit). 18 U.S.C. §1833(b) (1)–(2). Limited discussion has been made by the courts on this point; however, at least one court has addressed this issue on point.

In *Unum Group v. Loftus*, the District Court of Massachusetts considered an employee's claim of immunity from suit in response to a DTSA claim filed against him. Case No. 16-cv-40154-TSH (D.Mass. Dec. 6, 2016). The Unum Group claimed that the defendant misappropriated trade secrets after reviewing video surveillance that showed, on multiple occasions, the defendant leaving the Unum Group offices after-hours carrying boxes of documents.

The Unum Group filed suit after the defendant, who was terminated, failed to return all of the stolen materials. The defendant did not deny that he had taken the documents. Rather, he claimed that the documents were removed and given to an attorney, entitling him to whistleblower immunity. The court disagreed with the defendant, finding that the defendant's claims of unlawful activity were not certain because the defendant indicated he was only considering a whistleblower action. The defendant was also unclear in how the documents were given to his attorney. While the *Unum Group* decision is the only early decision related to the whistleblower immunity, the decision should grant some security to trade secret owners that claims of immunity are going to be scrutinized instead of readily accepted.

It should be noted that another unique feature of the DTSA—an employer's required disclosures to employees—has not been addressed by a court at the time of this writing. The DTSA requires employers to provide notice of the DTSA's whistleblower immunity provisions "in any contract or agreement with an employee that governs the use of a trade secret or other confidential information." 18 U.S.C. §1833(b)(3)(A). Failure to include this notification deprives an employer of the opportunity to receive exemplary damages or attorney fees in the event that it is successful on a case of trade secret misappropriation against a former employee who should have been notified. *Id.* at §1833(b)(3)(C). This provision set off a flurry of activity for labor and employment attorneys, who revised employee handbooks, contracts, and other notices to ensure that this notification was provided.

Conclusion

Early suits filed under the DTSA are still in litigation, with the first DTSA verdict being issued in late March of this year. See *Dalmatia Import Group, Inc. and Maia Magee v. FoodMatch, Inc., et al.*, Case No. 16-cv-02767 (E.D.Pa. Feb. 24, 2017). As the DTSA moves into its sophomore year, we anticipate that more decisions will be handed down that will continue to shine light on how the courts interpret the DTSA's various provisions. 