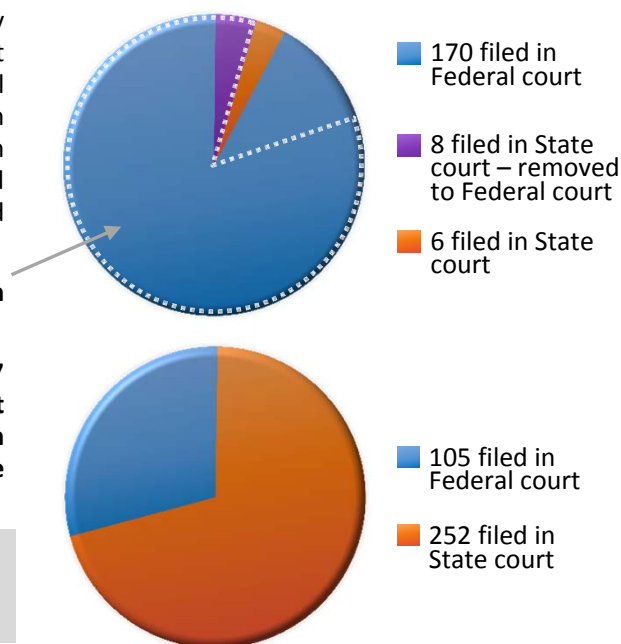


Defend Trade Secrets Act (“DTSA”): 2016 Roundup

On May 11, 2016, the Defend Trade Secrets Act of 2016 (“DTSA”) was signed into law. The DTSA created a federal civil private right of action for trade secret misappropriation by amending the Economic Espionage Act, 18 U.S.C. § 1831 *et seq.* (“EEA”), which criminalizes the theft of trade secrets. Prior to the passage of the DTSA, civil actions for trade secret misappropriation had to be filed under state law.

- Since enactment, there have been approximately **184 complaints filed with DTSA claims**, the vast majority of which were filed directly in federal court. Approximately 170 were filed originally in federal court, approximately eight were filed in state court but removed to federal court, and approximately six were filed in state court and stayed.
- Approximately **157 of those cases included both DTSA and state law trade secret claims**.
- During that same period, approximately **357 cases were filed with state law trade secret claims** but no DTSA claims, approximately **105 in federal court** and approximately **252 in state court**.

Approximately 50 of all of these cases have resulted in reported opinions regarding various provisions of the DTSA.



Case law interpreting the DTSA is evolving daily. Thus far, courts have issued decisions analyzing, among other things:

- The *ex parte* civil seizure provision;
- Whether the law covers pre-enactment conduct;
- The definition of a trade secret and level of specificity with which trade secrets must be identified;
- The meaning of misappropriation;
- The requirement that the misconduct have a nexus to interstate commerce;
- The standard for and scope of preliminary injunctions;
- The provision protecting whistleblowers; and
- Issues related to discovery.

We summarize below some of the key holdings to this point:

Ex Parte Civil Seizure

The DTSA allows for civil seizures of property “to prevent the propagation or dissemination of the trade secret that is the subject of the action,” but “only in extraordinary circumstances.” 18 U.S.C. § 1836(b)(2)(A)(i). As of the printing of this Client Alert, several courts have denied requests to make use of the provision, and we have seen no opinion granting an *ex parte* request.* For example, in *OOO Brunswick Rail Management v. Sultanov*, No. 5:17-cv-00017-EJD, 2017 WL 67119 (N.D. Cal. Jan. 6, 2017), the applicant sought to recover a company-issued laptop and mobile phone. The Court found that “seizure under the DTSA is unnecessary because the Court will order that Sultanov must deliver these devices to the Court at the time of the [preliminary injunction] hearing scheduled below, and in the meantime, the devices may not be accessed or modified.” *Id.* at *2. Subsequently,

*Some anecdotal reports suggest that two *ex parte* civil seizure requests have been granted, but one of those requests was made with notice to the defendant and the other order may be sealed. See *Mission Capital Advisors, LLC v. Romaka*, No. 1:16-cv-05878-LLS (S.D.N.Y. July 29, 2016).

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the court dissolved the TRO because it determined it had no personal jurisdiction over the Russia and Connecticut-based defendants. *See also, e.g., Balearia Caribbean v. Calvo*, No. 1:16-cv-23300-KMW, at *8 (S.D. Fl. Aug. 5, 2016) (rejecting request to seize the defendant's personal Mac laptop where the applicant failed to demonstrate the "extraordinary circumstances contemplated by the DTSA."); *Jones Printing v. Adams Lithographing et al.*, No. 1:16-cv-442, at *3 (E.D. Tenn. Nov. 3, 2016) (same, where the application was "bare and conclusory" and insufficient to warrant an *ex parte* civil seizure in contrast to a TRO or preliminary injunction under Rule 65, "which appears to be the preferred form of injunctive relief under § 1836 to date."); *Dazzle Software II v. Kinney*, Case No. 16-cv-12191 (E.D. Mich. July 18, 2016) (rejecting request for civil seizure of computers and computer storage devices).

Pre-Enactment Conduct

Several courts have addressed the question of whether and to what extent the DTSA covers pre-enactment conduct to somewhat differing results. One court held that although the DTSA by its terms applies only to acts of misappropriation that occur "on or after the date of the enactment of this Act", allegations that a defendant continues to use trade secrets post-enactment states a claim because "the wrongful act continues to occur after the date of the enactment of DTSA." *Syntel Sterling Best Shores Mauritius Limited v. The Trizetto Group, Inc.*, No. 15 CV-211 (LGS) (RLE), 2016 WL 5338550, at *6 (S.D.N.Y. Sept. 23, 2016). Such allegations of continuing use must be more than just "conclusory." *Hydrogen Master Rights, Ltd. v. Weston*, Civ. No. 16-474-RGA, 2017 WL 78582, at *10 (D. Del. Jan. 9, 2017). Another court, however, held that "continued use of information that was disclosed prior to the effective date of the statute" did not state a claim under the DTSA. *Avago Tech. US Inc. v. Nanoprecision Prods. Inc.*, No. 16-cv-03737-JCS, 2017 WL 412524, at *6 (N.D. Cal. Jan. 31, 2017) (no DTSA claim where there was no allegation "that any new information" was disclosed after the effective date of the DTSA).

One court held that a DTSA claim that includes allegations of pre-enactment conduct will survive if the plaintiff "sufficiently alleges a prohibited 'act' occurring after May 11, 2016," but the claim may be limited to a theory that contains post-enactment conduct. *Adams Arms v. Unified Weapons Sys.*, No. 8:16-cv-1503-T-33AEP, 2016 WL 5391394, at *6 (M.D. Fla. Sept. 27, 2016) (granting a partial motion to dismiss and holding that plaintiff's wrongful disclosure theory could survive because it alleged post-enactment conduct but the wrongful acquisition theory could not survive because "Defendants acquired all information well prior to May of 2016").

Trade Secret Definition

United States v. Nosal, Nos. 14-10037, 14-10275, 2016 WL 7190670 (9th Cir. Dec. 8, 2016) (as amended) addressed the kind of information that can constitute a trade secret under the act. In that case, the court held that source lists of information about executives including contact information, employment history, salaries, biographies, and resumes could constitute trade secrets under the DTSA even though the lists included data from public sources such as LinkedIn because they could not "be readily completed using public sources" but rather "are the customized product of a massive database" with "value" that "stemmed from the unique integration, cultivation, and sort of, and aggressive protections applied to" that database. *Id.* at *14.

Identification of Trade Secret With Specificity

Some courts have weighed in on the specificity with which a plaintiff must identify its trade secrets. One court held that a complaint must be sufficiently specific in defining trade secrets so that defendants can "discern what trade secrets are at issue," including "provid[ing] Defendants with the general contours of the alleged trade secrets" at issue. *Chatterplug, Inc. v. Digital Intent LLC*, No. 1:16-cv-4056, 2016 WL6395409, at *3 (N.D. Ill. Oct. 28, 2016) (dismissing complaint without prejudice where description of trade secrets was insufficiently specific).

At the same time, another court held that “trade secrets ‘need not be disclosed in detail in a complaint alleging misappropriation for the simple reason that such a requirement would result in public disclosure of the purported trade secret.’” *Mission Measurement v. Blackbaud*, No. 16 C 6003, 2016 WL 6277496, at *5 (N.D. Ill. Oct. 27, 2016) (denying motion to dismiss for failure to sufficiently describe trade secret where plaintiff described the categories of trade secrets and “the dates and ways it shared this information with Defendants”).

Meaning of “Misappropriation”

Courts are also beginning to address the meaning of “misappropriation” under the DTSA. One noted that “a party may not be liable for misappropriation under either Act unless it takes, discloses or uses a trade secret belonging to someone else.” *HealthBanc Int’l, LLC v. Synergy Worldwide, Inc.*, No. 2:160cv099135-JNP-PMW, --- F. Supp. 3d ---, 2016 WL 5255163, at *6 (D. Utah Sept. 22, 2016) (granting motion to dismiss where defendant was alleged to have misappropriated a trade secret healthy “greens formula” by using it without paying royalties but in fact defendant “held full title” to the formula under a Royalty agreement). Another court found acquisition of trade secrets “by accident or mistake” is not misappropriation. *M.C. Dean v. City of Miami Beach*, No. 16-21731-CIV-ALTONAGA, 2016 WL 4179807, at *7 (S.D. Fla. 2016).

Interstate Commerce Requirement

“[T]he DTSA creates a private cause of action for the owner of a trade secret ‘if the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce.’” *Hydrogen Master Rights, Ltd. v. Weston*, Civ. No. 16–474–RGA, 2017 WL 78582, at *10 (D. Del. Jan. 9, 2017). The court in *Hydrogen* concluded that a complaint fails to state a claim where it “fails to allege any nexus between interstate or foreign commerce and the” misconduct, agreements, or parties in question. *Id.* (dismissing claim without prejudice for failing to allege interstate commerce nexus).

Preliminary Injunction

Several cases have addressed whether and to what extent preliminary injunctions are appropriate on DTSA claims. See, e.g., *Earthbound Corp. v. MiTek USA, Inc.*, No. C16-1150 RSM, 2016 WL 4418013, at * 10 (W.D. Wa. Aug. 19, 2016) (In earthquake safety industry, preliminary injunction on DTSA claim was appropriate where defendant allegedly took “detailed information about Earthbound’s current and prospective customers, pending projects, bids, pricing, product design, and other elements of its business.”). In *Engility Corp. v. Daniels, Surber, and Deployable Tech. Sols., LLC*, No. 16-cv-2473-WJM-MEH, 2016 WL 7034976, at *11 (D. Colo. Dec. 2, 2016), the court noted that “[u]nder the DTSA, the Court cannot grant an injunction that ‘prevent[s] a person from entering into an employment relationship,’ and the Court can only place conditions on employment ‘based on evidence of threatened misappropriation and not merely on the information the person knows.’” *Id.* at p. *10 (quoting 18 U.S.C. § 1836(b)(3)(A)(i)(I)). Nevertheless, the court determined that a preliminary injunction was appropriate where defendant retained trade secrets, had “demonstrated a propensity for making surreptitious copies of the relevant data, and the Court simply cannot trust [defendant’s] representations that no further copies exist.” *Id.* at p. *11; see also, e.g., *OOO Brunswick Rail Mgmt. et al v. Sultanov*, No. 5:17-cv-00017-EJD, 2017 WL 67119, at *4 (N.D. Cal. Jan. 7, 2017) (Preliminary injunction found appropriate where defendant had been sending trade secret information to plaintiff’s creditor. The injunction instructed defendant not to modify or access any device received from plaintiff, not to destroy any evidence, not to disseminate confidential information, and not to “interfer[e] with or injur[e] relations, goodwill, or negotiations with any contractual counterparties.”).

Whistleblower Provision

At least one case has addressed the whistleblower protections imposed by the DTSA. In *Unum Group v. Loftus*, No. 16-cv-40154-TSH, 2016 WL 7115967, --- F. Supp. 3d --- (D. Mass. Dec. 6, 2016), the court held that whistleblower provision under 18 U.S.C. § 1836(b)(1) is an affirmative defense that can “be adjudicated on a

motion to dismiss so long as (i) the facts establishing the defense are definitively ascertainable from the complaint and the other allocable sources of information, and (ii) those facts are sufficient to establish the affirmative defense with certitude.” *Id.* at *2 (denying motion to dismiss because “it is not ascertainable from the complaint whether Loftus turned over all of Unum’s documents to his attorney, which documents he took and what information they contained, or whether he used, is using, or plans to use, those documents for any purpose other than investigating a potential violation of law”) (internal quotation and citation omitted).

Discovery Issues

At least one court has expressed caution about allowing intrusive discovery into defendants’ computer devices due to privacy concerns. See *Schein, Inc. v. Cook*, No. 16:cv:03166-JST, 2016 WL 3212457, at *4 (N.D. Cal. June 10, 2016) (holding that there was no good cause to allow *ex parte*, expedited discovery “to obtain, through a forensics expert,” a mirror image of various computer devices to ensure against spoliation because the “intrusion into . . . personal data and devices” required an opportunity for defendant to respond.)

Munger Tolles will continue to monitor the developing DTSA case law as it applies both to companies seeking to protect their trade secrets and those seeking to avoid receiving or using others’ trade secrets.

For further information, please feel free to contact the following lawyers:



Laura Smolowe

213-683-9113

Laura.Smolowe@mto.com

Bio:

<https://www.mto.com/lawyers/Laura-DSmolowe>



Miriam Kim

415-512-4041

Miriam.Kim@mto.com

Bio:

<https://www.mto.com/lawyers/Miriam-Kim>



Carolyn Hoecker Luedtke

415-512-4027

Carolyn.Luedtke@mto.com

Bio:

<https://www.mto.com/lawyers/Carolyn-Hoecker-Luedtke>

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