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PERSPECTIVE

Evolution of the DTSA

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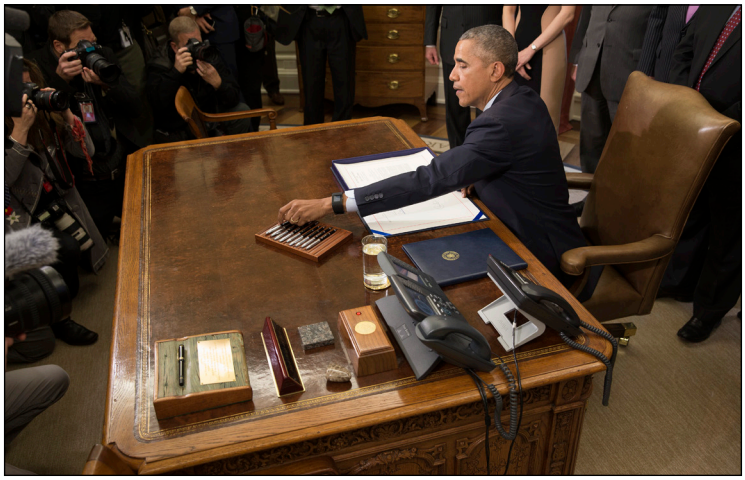

New York Times News Service

President Barack Obama signs into law the Defend Trade Secrets Act of 2016, at the White House in Washington, May 11, 2016.

As the Defend Trade Secrets Act turns three, we reflect on how it has evolved and issues that continue to develop.

Courts Are Full of Surprises

The remedy of ex parte seizure, unavailable under the Uniform Trade Secrets Act, was one of the most controversial provisions when the DTSA was enacted. This provision allows U.S. marshals to seize trade secrets from the alleged thief without notice. Critics worried that this remedy could be used to harass competitors and disrupt their business. Supporters delighted in this method of preserving evidence for trial.

Three years later, ex parte seizures have fallen out of the limelight. As rare as these requests have been, orders granting them have been even rarer. The first order granting this relief was a last resort, after the defendant ignored the court's order to show cause why a preliminary injunction should not issue, repeatedly evaded personal service, and failed to appear at the hearing on the order to show cause. *See Mission Capital Advisors LLC v. Romaka*, 16-Civ-5878 (LLS) (S.D.N.Y. July 29, 2016). The scarcity of such orders since then suggests that litigants and courts continue to recognize the strict showing required for such relief, which will not be granted "unless the court finds that it clearly appears from specific facts that" the plaintiff will be immediately and irreparably injured and that the defendant would destroy or hide the protected material if relief were sought on regular notice, among other things. 18 U.S.C. Section 1836(b)(2)(A)(ii).

Conversely, courts are creating controversy by employing the inevitable disclosure doctrine, a theory of liability rejected by Congress in the DTSA and by many states. Under the DTSA, courts may enjoin "any actual or threatened misappropriation." 18 U.S.C. Section 1836(b)(3)(A)(i). However, because the DTSA does not preempt state law, some state courts, including in New Jersey, will enjoin a former employee if the employee inevitably will rely on the previous employer's trade secrets. Even some federal courts have applied the doctrine in DTSA cases, presumably incorrectly given the legislative history and provisions of the DTSA prohibiting use of the doctrine. For example, the Northern District of Illinois applied the doctrine in granting injunctive relief under the DTSA, when the court instead could have granted the injunction for the Illinois trade secret claim or for circumstantial evidence of misappropriation. *See Mickey's Linen v. Fischer*, 17-C-2154 (N.D. Ill. Sept. 8, 2017). Likewise, the 3rd U.S. Circuit Court of Appeals affirmed a district court's finding of irreparable harm based on the inevitable disclosure doctrine. *See Fres-co Systems USA v. Hawkins*, 690 F. App'x 72 (3d Cir. 2017).

Technological Difficulties

Not all courts grant injunctive relief under the DTSA when former employees accept employment with a competitor. For example, a ticketing company and three of its employees, who formerly worked for the plaintiff, avoided DTSA liability in the Central District of California. *See Calendar Research LLC v. StubHub, Inc.*, 2:17-cv-04062-SVW-SS (C.D. Cal. Aug. 7, 2018). The court found that the computer code allegedly misappropriated was not a trade secret because it was publicly available and not compiled in a novel manner.

DTSA claims involving new technologies, such as blockchain, similarly have struggled to prevail. The Southern District of California addressed one of the first blockchain cases under the DTSA and denied a motion for a preliminary injunction regarding cryptocollectible characters bearing the likeness of celebrities. *See Founder Starcoin, Inc. v. Launch Labs Inc. d/b/a Axiom Zen, Bankr.*, 18-CV-972 JLS (MDD) (S.D. Cal. July 9, 2018). The court explained that licensing celebrity images is a publicly known business practice, not a trade secret.

Jurisdictional Limitations

Use, or intended use, in interstate or foreign commerce is a prerequisite to subject matter jurisdiction under the DTSA. While at least one court suggested that no allegations relating to interstate commerce are necessarily required to sufficiently plead a DTSA claim (*see Wells Lamont Indus. Grp. LLC v. Richard Mendoza & Radians, Inc.*, 17-C-1136 (N.D. Ill. July 31, 2017)), other courts have dismissed claims for failure to allege the requisite nexus. *See Hydrogen Master Rights, Ltd. v. Weston*, 228 F. Supp. 3d 320, 338 (D. Del. 2017); *Gov't Emps. Ins. Co. v. Nealy*, 17-807 (E.D. Pa. June 13, 2017).

Economic Loss Rule

On Oct. 22, 2018, a court held that the economic loss doctrine does not bar DTSA claims. *See Great Am. Opportunities, Inc. v. Kent*, 17-cv-01662-RBJ (D. Colo. Oct. 22, 2018). Thus, if a claim satisfies the DTSA's requirements, including the jurisdictional commerce nexus, the claim can proceed in conjunction with a breach of contract claim.

Looking at the Defend Trade Secrets Act as the federal law turns 3

Fee Awards

On Nov. 13, 2018, the 5th U.S. Circuit Court of Appeals held that dismissal without prejudice does not support an attorney fee award under the DTSA. *See Dunster Live LLC v. LoneStar Logos Mgmt. Co.*, 908 F.3d 948 (5th Cir. 2018). After the district court denied the motion for a preliminary injunction, the plaintiff successfully moved to dismiss the action without prejudice, avoiding a potential $600,000 fee award. The circuit explained that even if the action was brought in bad faith, the defendants were not entitled to fees under the DTSA because they were not the prevailing party.

Similarly situated defendants may invoke the Federal Rules of Civil Procedure to recover their fees. For instance, under Rule 41, the court cannot dismiss the case over the defendant's objection if the defendant filed a counterclaim that cannot be independently adjudicated. Further, Rule 11 sanctions are available for bad faith conduct in litigation even without a prevailing party.

Interacting with the Government: Whistleblowing and Public Records

Whistleblower cases present a unique hurdle to attorney fees. The DTSA protects whistleblowers from having to defend against a trade secret misappropriation claim resulting from disclosing trade secrets for law enforcement purposes. If an employer fails to provide notice of this whistleblower immunity to an employee, consultant, or contractor, the employer is not entitled to exemplary damages or attorney fees. The DTSA requires that this notice, or a reference thereto, be provided in the nondisclosure agreement or other contract regarding the confidentiality of the employer's trade secrets.

Last year, the Eastern District of Pennsylvania upheld whistleblower protection. *See Christian v. Lannett Co.*, 16-963 (March 29, 2018). In that case, the plaintiff sued her former employer for discrimination, and the defendant counterclaimed for misappropriation after discovering that she had been using its trade secrets in connection with the lawsuit. Given the lack of evidence that the plaintiff intended to disclose the trade secrets to anyone other than the defendant, the court found that her actions were immune under the DTSA.

Turning to another governmental interaction, the DTSA does not prohibit disclosure of trade secrets in response to public records requests. *See Fast Enters., LLC v. Pollack*, 16-cv-12149-ADB (D. Mass. Sept. 21, 2018). Whether the government may refuse to disclose trade secrets, however, is another issue. On Jan. 11, 2019, the Supreme Court decided to weigh in on when the government may refuse to disclose trade secrets in response to a Freedom of Information Act request. See Food Marketing Institute v. Argus Leader Media, 18-481.

Conclusion

As technology evolves and trade secrets continue to become a central focus of our economy, we can expect litigants to continue to test the boundaries of the DTSA and courts to clarify its scope, perhaps at a faster pace than in the Act's first three years.

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