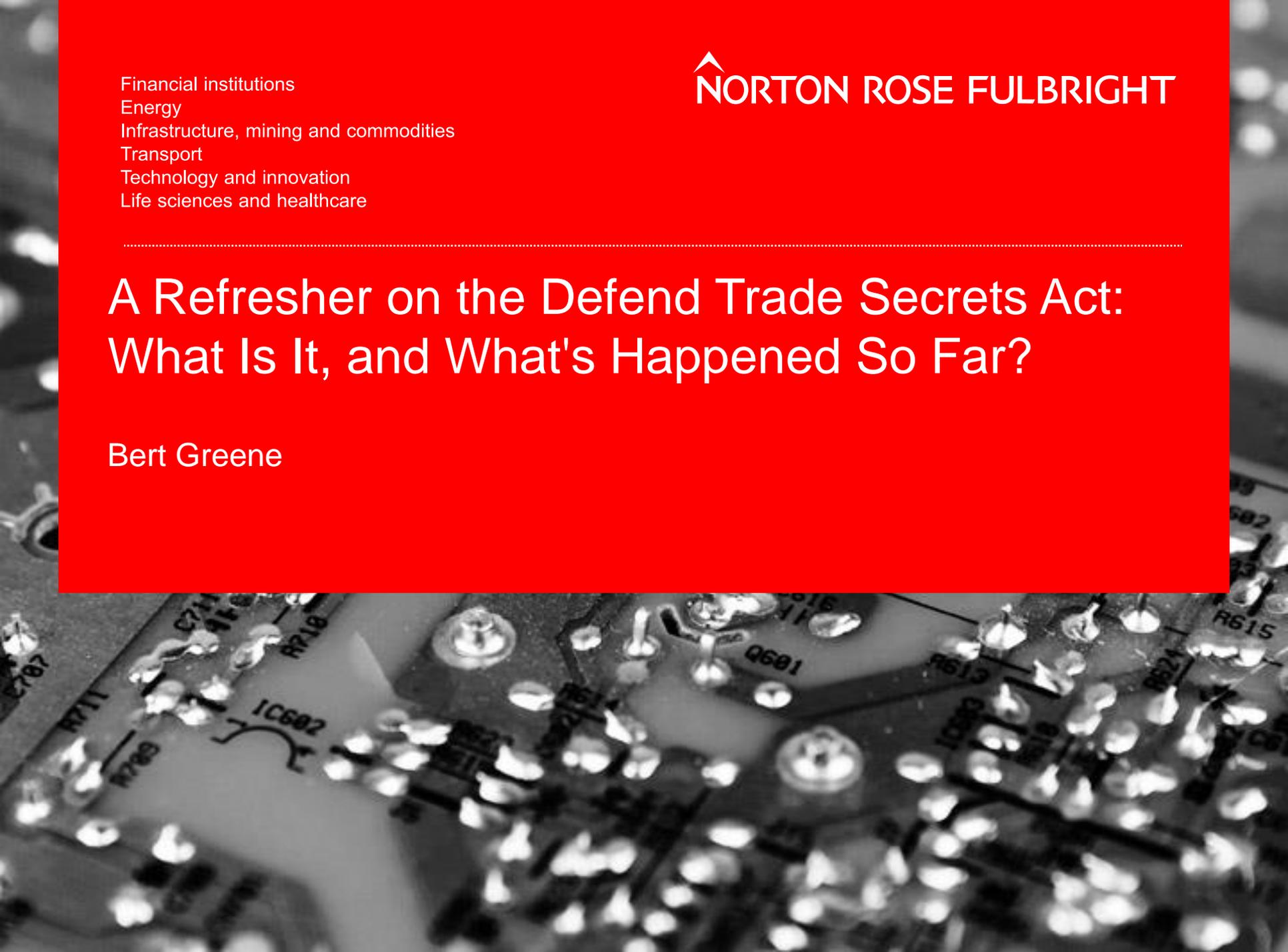


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 **NORTON ROSE FULBRIGHT**

A Refresher on the Defend Trade Secrets Act: What Is It, and What's Happened So Far?

Bert Greene





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What led to the DTSA?

“

The theft of American trade secrets for the benefit of China and other nations poses a continuing threat to our economic and national security. ”

Lisa Monaco

Assistant Attorney General for National Security

“

The devastating reality is that theft of trade secrets costs the American economy billions of dollars each year. ”

House Judiciary Committee
*Members Business Insider Article,
August 18, 2014*

“

Emerging trends indicate that the pace of economic espionage and trade secret theft against US corporations is accelerating. ”

Executive Office of the President of the United States Report, February 2013



What led to the DTSA?

- **“Crack 99” Website** – a Chinese citizen pled guilty to circumventing the “access-control mechanisms” of U.S. companies to copy software worth over \$100 million.
- **St. Jude Medical** – obtained a \$947 million judgment against a former employee who used his access to steal trade secrets for medical devices and formed a competing company in China.
- **Pittsburgh Corning Corp.** – two Chinese citizens in Kansas City charged with attempting to pay for stolen trade secrets to open a rival plant in China.
- **American Superconductor** – Austrian-based employee of MA wind-energy company stole IP from the firm and sold it to Chinese manufacturer Sinovel for \$1.5 million.
- **Dow Chemical and Cargill employee** sentenced to 87 months in prison for trade secret theft and economic espionage for the benefit of components of the Chinese government.
- **RF Micro Devices, Inc.** – North Carolina company sued three former employees who stole trade secrets to form a network of competing companies in North Carolina and China.



What led to the DTSA?

\$5 trillion

The estimated value of U.S. trade secret assets

Over 80%

The total value of the "intangible assets" of the S&P 500 in 2009 compared to 17% in 1975

More than 60%

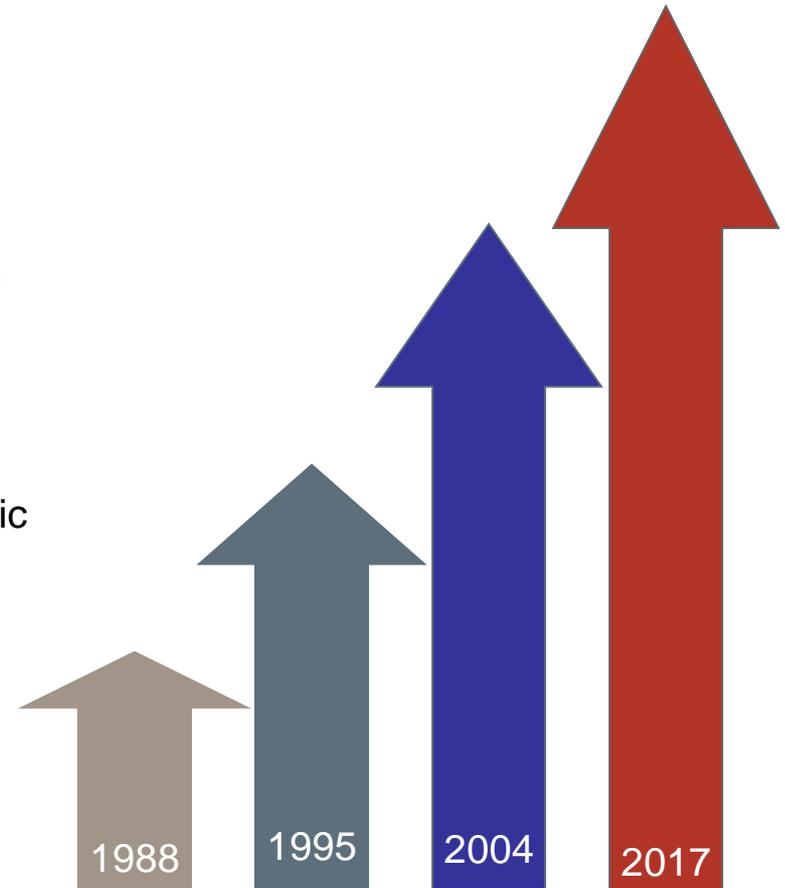
The increase in the number of trade secret and economic espionage cases handled by the FBI between 2009-13

\$300 billion

The approximate annual loss to American companies from IP theft

\$2 million

The average loss to American companies per year



Trade secret cases doubled from 1988 to 1995, doubled again from 1995 to 2004 and will double again by 2017

*Senate Judiciary Committee Hearings on "Protecting Trade Secrets: the Impact Of Trade Secret Theft on American Competitiveness and Potential Solutions to Remedy this Harm." December 2015



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Defend Trade Secrets Act of 2016

- Signed by Obama on May 11, 2016
- Federal civil cause of action
- Similar to the Uniform Trade Secret Act (but...)
- Trade secrets were only form of IP lacking federal civil protection
- FBI lacks resources to prosecute all cases
- Theft must be related to a product or service used in or intended for use in interstate or foreign commerce.



Key aspects of the DTSA

- Broad definition of “trade secret”
- Three-year statute-of-limitations
- Injunctive relief and monetary remedies
- Ability to obtain *ex parte* orders for seizure of goods
- Whistleblower immunity



Broad definition of “trade secret”

➤ The DTSA defines a “trade secret” as:

- **Information, 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**:
 - it **derives independent economic value**, actual or potential, from **not being generally known** and readily ascertainable through proper means; and
 - the owner thereof has taken reasonable measures to keep the information **secret**.



Definition of “misappropriation”

- **Acquisition** of a trade secret by one who knows or should know that the information was obtained by **improper means**, OR ...
- the **disclosure** or **use** of a trade secret by one who improperly acquired it.

- **Improper means** = theft, bribery, misrepresentation, ... breach of a duty to maintain secrecy, or espionage through electronic or other means.
 - Does not include reverse engineering or independent creation



Effective Date and Statute-of-Limitations

- **Effective Date**: DTSA states that its provisions “shall apply with respect to any misappropriation of a trade secret . . . for which any act occurs on or after the date of the enactment of this Act [May 11, 2016].”
 - BUT . . . courts are still sorting out whether a trade secret owner may recover under the DTSA for a continuing misappropriation that began before May 11, 2016.
- **Three-Year Statute-of-Limitations**: DTSA bars actions “commenced later than 3 years after the date on which the misappropriation with respect to which the action would relate is discovered or by the exercise of reasonable diligence should have been discovered.”
 - Like UTSA, provides that “a continuing misappropriation constitutes a single claim of misappropriation.”



Injunctive relief and monetary remedies

➤ Injunctive relief

- Can be awarded “to prevent any actual or threatened misappropriation”
- Cannot “prevent a person from entering into an **employment relationship**”
- Conditions placed on such employment “shall be based on evidence of threatened misappropriation and not merely on the information the person knows”
 - Avoids imposing **inevitable disclosure doctrine** on states that have rejected it

➤ Monetary remedies

- Actual losses
- Unjust enrichment (without double recovery)
- Reasonable royalty in exceptional circumstances

➤ Enhanced damages

- Willful and malicious misappropriation can merit double damages

➤ Attorneys' fees

- Bad faith claims of misappropriation
- Motion to terminate injunction made or opposed in bad faith
- Willful and malicious misappropriation



Ex parte order for seizure of goods

- For the seizure of property necessary to prevent the propagation or dissemination of the trade secret that is the subject of the action
- **Extraordinary circumstances** must be shown in affidavit or verified complaint
 - Can't unring the bell
 - If the alleged thief is likely to avoid or not comply with a preliminary injunction
- Plaintiff must show:
 - Other equitable relief inadequate
 - Immediate and irreparable harm without seizure
 - Harm of denying substantially outweighs harm of granting
 - Likelihood of success on the merits
 - Target has actual possession of the trade secret and property to be seized
 - Material to be seized and location described with reasonable certainty
 - Target would destroy, move, hide, or otherwise make such matter inaccessible if notice was provided
 - Applicant must not publicize the requested seizure



Whistleblower Immunity

- Leahy Amendment protects whistleblowers for the purposes of reporting a suspected violation of the law
- Immunity from misappropriation claims if individuals disclosed to assist government officials investigating violations
- If claiming wrongful termination, may disclose to attorneys and file in court papers (subject to sealing)
- Employers must provide **notice-of-immunity** to employees and contractors “in any contract or agreement with an employee [or independent contractor] that governs the use of a trade secret or other confidential information”
 - Consequences of failure to provide notice: Employer cannot recover any attorneys’ fees or exemplary damages under the Act.



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What's Happened So Far?

- **~400 cases filed this far with DTSA claim**
 - Most cases include a companion state law TS claim
- **Majority of DTSA decisions involve pleading standards**
- **Districts disagree on detail required to describe TS**
- **Very few *ex parte* seizure applications filed**
- **At Least One DTSA Trial**
- ***Waymo v. Uber***



Pleading Standards for DTSA Claims

➤ ***Hydrogen Master Rights, Ltd. v. Weston*, No. 16-474-RGA, 2017 U.S. Dist. LEXIS 2694 (D. Del. Jan. 9, 2017)**

➤ Court granted the defendant's motion to dismiss the plaintiff's DTSA claim, in part because the complaint failed to allege any nexus between interstate or foreign commerce and the alleged trade secrets.

➤ ***Dazzle Software II, LLC v. Kinney*, No. 16-12191, 2016 U.S. Dist. LEXIS 155993 (E.D. Mich. Aug. 22, 2016)**

➤ Court granted the defendant's motion to dismiss the plaintiff's DTSA claim and stated that "if Plaintiffs seek to re-assert a DTSA claim, Plaintiffs shall plead with specificity any alleged conduct by Defendants post-dating the effective date of the DTSA that, according to Plaintiffs, constitutes a violation of the DTSA or otherwise makes the DTSA applicable to Defendants."

➤ ***Champions League, Inc. v. Woodard*, No. 16 Civ. 2514 (RMB), 2016 U.S. Dist. LEXIS 183339 (S.D.N.Y. Dec. 15, 2016)**

➤ Court denied the plaintiff's request for leave to add a claim under the DTSA, which the defendant opposed "as futile because the DTSA 'only applies to the 'theft' of 'trade secrets' occurring on or after [May 11, 2016]' and the allegations in the Complaint describe events occurring before that date."



Pleading Standards for DTSA Claims

➤ ***Syntel Sterling Best Shores Mauritius Ltd. v. Trizetto Grp., Inc.*, No. 15-CV-211 (LGS) (RLE), 2016 U.S. Dist. LEXIS 130918 (S.D.N.Y. Sep. 23, 2016)**

➤ Court granted defendant's motion for leave to add a DTSA counterclaim because "the wrongful act continues to occur after the date of the enactment of DTSA," and the DTSA therefore applied to the claim.

➤ ***Adams Arms, LLC v. Unified Weapon Sys.*, No. 8:16-cv-1503-T-33AEP, 2016 U.S. Dist. LEXIS 132201 (M.D. Fla. Sep. 27, 2016)**

➤ Defendants moved to dismiss DTSA claim with prejudice because, according to them, the relevant events all took place before the May 11, 2016 effective date of the DTSA.

➤ Defendants pointed to DTSA's statute-of-limitations provision stating that "[f]or purposes of this subsection, a continuing misappropriation constitutes a single claim of misappropriation."

➤ Court rejected defendants' argument, noting that the statutory language relied upon by the defendants "addresses only when a claim accrues for statute of limitations purposes" – for an ongoing misrepresentation, "when an 'act' occurs after the effective date, a partial recovery is available."

➤ Court noted that DTSA omitted language from UTSA stating that "[w]ith respect to a continuing misappropriation that began prior to the effective date, the [UTSA] also does not apply to the continuing misappropriation that occurs after the effective date."



Pleading Standards for DTSA Claims

➤ ***Avago Techs. United States Inc. v. NanoPrecision Prods.*, No. 16-cv-03737-JCS, 2017 U.S. Dist. LEXIS 13484, at *27 (N.D. Cal. Jan. 31, 2017)**

- No dispute that the defendant's original wrongful acquisition of the plaintiff's confidential information took place in 2012 (well before the enactment of the DTSA) when the information was included in patent applications filed by the defendant.
- Plaintiff argued that it had a proper DTSA claim based on the defendant's "continued use" of its confidential information in the prosecution of those patent applications after the effective date of the DTSA.
- Court distinguished *Adams Arms* in granting defendant's motion to dismiss the DTSA claim, finding that because the trade secrets at issue were publicly disclosed when the patent applications were published before the DTSA came into effect, the subsequent use of the information in prosecuting the patent applications did not qualify as a separate "disclosure" because the information was no longer a trade secret due to the publication.

How Much Detail Required to Describe Trade Secret?



➤ ***Mission Measurement Corp. v. Blackbaud, Inc.*, No. 16 C 6003, 2016 WL 6277496, at *5 (N.D. Ill. Oct. 27, 2016)**

➤ “Courts in this district [have found] trade secret allegations to be adequate in instances where the information and the efforts to maintain its confidentiality are described in general terms [P]laintiffs need only describe the information and efforts to maintain the confidentiality of the information in general terms A more stringent requirement would result in public disclosure of the purported trade secrets.”

➤ ***Kuryakyn Holdings, LLC v. Ciro LLC et al.*, No. 15-cv-703-jdp, 2017 WL 1026025, at *6 (W.D. Wis. Mar. 15, 2017)**

➤ Court granted defendant’s MSJ on plaintiff’s DTSA claim because the plaintiff’s “descriptions of its purported trade secrets [were] too vague.”

Very Few *Ex Parte* Seizure Applications



➤ Among hundreds of DTSA cases that have been filed thus far, not many where *ex parte* seizure provisions of the DTSA invoked.

➤ *OOO Brunswick Rail Mgmt. v. Sultanov*, No. 5:17-cv-00017-EJD, 2017 U.S. Dist. LEXIS 2343 (N.D. Cal. Jan. 6, 2017)

➤ Court denied seizure request, noting that under the DTSA “[a] court may issue a seizure order only if, among other requirements, an order under Fed. R. Civ. P. 65 or another form of equitable relief would be inadequate.”

➤ Court reasoned that the application for seizure was “unnecessary because the Court will order that [the defendant] must deliver these devices to the Court at the time of the hearing scheduled below”

➤ *Mission Capital Advisors LLC v. Romaka*, No. 1:16-CV-05878-LLS (D.I. 7) (S.D.N.Y. Jul..29, 2016)

➤ May be only publicly-available decision granting *ex parte* seizure under DTSA (others decisions may exist but are sealed)

➤ Defendant failed to appear at TRO hearing or accept service service of TRO

➤ Court found that Rule 65 order would be inadequate and granted *ex parte* seizure of client contact lists from defendant’s computer



Very Few *Ex Parte* Seizure Applications

➤ **Much more common for plaintiffs to forego request for *ex parte* seizure and instead seek a more traditional temporary restraining order and/or preliminary injunction under Rule 65**

➤ *Engility Corp. v. Daniels*, Civil Action No. 16-cv-2473-WJM-MEH, 2016 U.S. Dist. LEXIS 166737 (D. Colo. Dec. 2, 2016)



First DTSA Trial

- ***Dalmatia Import Group, Inc. et al. v. FoodMatch, Inc. et al., No. 16-2767 (E.D. Pa.)***
 - Plaintiff alleged defendant misappropriated the proprietary recipe and production process for plaintiff's signature fig spread
 - In addition to Lanham Act claims, Plaintiff pled claims under both Penn. UTSA and the DTSA
 - Jury was not instructed separately on elements under DTSA – only the elements under PUTSA
 - Jury was not instructed that DTSA only applied to claimed damages after DTSA effective date of 5/11/16
 - On 2/24/17, jury awarded \$500K in damages for “misappropriation of trade secrets,” which defendant claims in post-trial briefing “covered the period from January 2016, the start of sales of the [accused] product, and therefore cannot be an award under the DTSA”



Waymo v. Uber

- **Waymo LLC v. Uber Technologies, Inc. et al, No. 3:17-cv-00939-WHA (N.D. Cal.)**
 - Waymo was spun out of Google/Alphabet in December 2016 to take over self-driving car project started by Google in 2009
 - In late 2015, Anthony Levandowski, while employed by Waymo, used his company credentials to download “9.7 GBs of sensitive, secret, and valuable internal Waymo information” comprising 14K documents
 - In early 2016, Levandowski left Waymo to start competing self-driving car ventures Ottomotto and Otto Trucking.
 - In August 2016, Uber acquired Otto for approximately \$680 million.
 - Subsequent to the Uber purchase, a third-party tech supplier transmitted an email to Ottomotto and Uber that allegedly contained confidential and proprietary design information belonging to Waymo. Waymo learned of the email because a Waymo employee was inadvertently copied on it.



Waymo v. Uber

- Waymo made a public records request to obtain Otto's submissions to Nevada regulatory authorities, which confirmed to Waymo that defendants "[were] in fact using a custom LiDAR system with the same characteristics as Waymo's proprietary system."
- Waymo filed suit on 2/23/17, alleging misappropriation of trade secrets under DTSA and the CUTSA (also patent infringement).
- On 5/11/17, judge referred the case to the US Attorney's office "for investigation of possible theft of trade secrets based on the evidentiary record supplied thus far"
- On 5/15/17, judge granted preliminary injunction barring Levandowski from any having any role at Uber pertaining to LiDAR, but ruling did not halt Uber's self-driving car program altogether.
- Uber fired Levandowski on 5/30/17 after he refused to provide docs
- Trial is set for October 2017

The logo consists of a stylized, upward-pointing chevron shape in a gold color, positioned above the first letter of the text.

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