A ONE-YEAR RETROSPECTIVE

THE DEFEND TRADE SECRETS ACT OF 2016

Henry M. Sneath Picadio Sneath Miller & Norton, P.C.

Last year, Congress passed the Defend Trade Secrets Act of 2016 (DTSA), which became law and created a federal cause of action for trade secret misappropriation to complement the various state laws protecting trade secrets. We examined the statute in a previous article in *USLAW Magazine* (Fall/Winter 2016) after the law was enacted. Now that the DTSA is one year old, we are looking back to see how the law has been implemented and what companies need to know about the law to protect their trade secrets.

Prior to the enactment of the DTSA, trade secrets were generally only protected under the different laws of each state. While often similar, these laws varied from state to state, which created inconsistencies and uncertainties in how a company could protect its trade secrets, especially for companies that conduct business in more than one state. The DTSA promised to create a more uniform and predictable trade secret law that also gave litigants easier access to federal court.

While based on the Uniform Trade Secrets Act, the DTSA has some unique provisions that were the subject of much debate about how they would be used and how they would affect a trade secret owner's rights. Now that the DTSA has been in effect for a year, we are beginning to see the ways that these unique provisions are being applied by the courts and litigants.

EX PARTE SEIZURE PROVISION

The most controversial part of the DTSA is its *ex parte* seizure provision, which allows a plaintiff in extraordinary circumstances to obtain an order from a court directing that the U.S. Marshalls seize property and items necessary to prevent the propagation or dissemination of the plaintiff's trade secrets. Given that the defendant is not part of the process, numerous commentators expressed concerns that plaintiffs would attempt to use this tool to cause severe disruption to a competitor's business in instances where such a disruption was not warranted.

As of now, this concern does not seem to have arisen in practice. Few plaintiffs have attempted to seek *ex parte* seizure orders, and even fewer courts have granted such requests. Most courts seem to be very cautious about entering an *ex parte* seizure order, finding that the traditional tools in litigation – such as temporary restraining and preservation orders – are sufficient to protect the trade secrets in question. *See, e.g., OOO Brunswick Rail Management v. Sultanov* (N.D. Cal.); *Magnesita Refractories Co. v. Mishra* (N.D. Ind.); *Panera, LLC v. Nettles* (E.D. Missouri).

In one case where a court did enter an *ex parte* seizure order, *Mission Capital Advisors v. Romaka* (S.D.N.Y.), it involved a highly unusual fact pattern that is not likely to be readily repeated in most cases. In that case, a former employee of a financial advisory firm took numerous files when he left the company. Mission Capital filed suit and obtained a temporary restraining order against the former employee. When the former employee failed to appear at a hearing scheduled after the TRO, the court entered an *ex parte* seizure order to prevent further dissemination of the company's trade secrets. The U.S. Marshalls "seized" the trade secrets by copying them off of the former employee's computer and then securely deleting them. So, even in this case, the court first started with more traditional methods (a TRO) before moving to the *ex parte* seizure order only after the defendant failed to appear or otherwise respond. This case makes for some interesting reading, as the court and the plaintiff wrestled with what to do after the order had been granted and the case was ultimately resolved. In particular, the court considered the non-publicity provisions of the DTSA for seizure orders and what to do with the seized materials (in particular the trade secrets) after the case resolved.

For now, it appears that the *ex parte* seizure provision is more of a theoretical tool than an actual one for trade secret owners. That being said, it could still be a powerful tool in appropriate circumstances, such as where the trade secret owner can demonstrate a substantial risk that the trade secrets will be taken out of the country and beyond the reach of the court or where there is a credible reason to believe that the defendant will ignore the court. But, absent such circumstances, its usefulness in typical cases is likely to be limited.

APPLIES TO USE OF INFORMATION MISAPPROPRIATED BEFORE EFFECTIVE DATE

Another question that arose about the DTSA involved the timing of misappropriations that fall within the scope of the law. The DTSA only applies to misappropriations that occur "on or after the date of the enactment of this Act," but Congress did not clarify whether it applies in situations where the trade secrets were taken before the effective date of the law (May 11, 2016), but where the misuse begins or continues after that date.

Under the DTSA, "misappropriation" means the "disclosure *or use* of a trade secret without the consent of another." Based on this language, many courts addressing this issue have interpreted the DTSA as applying to whenever a trade secret is improperly *used* after the effective date of the DTSA, even if the theft or taking occurred before the effective date. *See, e.g., Syntel Sterling Shores Mauritius Ltd. v. Trizetto Group, Inc.* (S.D.N.Y.) and *Brand Energy & Infrastructure Servs. v. Irex Contr. Grp.* (E.D. Penn.); but see *Avago Techs. United States Inc. v. NanoPrecision Prods.* (N.D. Cal.).

While most courts have adopted this interpretation, this issue will be of diminishing importance to trade secret owners as time goes on, and we get further away from the enactment date. But, for now at least, it appears that courts are being expansive in their interpretation of the DTSA, which will allow more litigants access to federal court on these claims.

THE DTSA IS MOSTLY BEING USED AGAINST FORMER EMPLOYEES AND IN CONJUNCTION WITH STATE TRADE SECRET CLAIMS

The other take-away from the early DTSA cases is that they are mostly being used in the employer-employee context when employees either resign to work for a competitor or are fired and try to use an employer's trade secrets after termination. While not the exclusive use of the law, a large percentage of the cases being brought under the DTSA fall into this category.

These kinds of employer-employee cases were often difficult to bring in federal court, because the underlying trade secret misappropriation claims were based on state law, and the parties were rarely diverse. Because the DTSA is a federal law, employers no longer need to establish diversity jurisdiction and can bring the actions in federal court under federal question jurisdiction. Nonetheless, employers typically are raising both state and federal trade secret misappropriation claims in the lawsuit in order to provide a broader range of potential coverage, especially in states where there are meaningful differences between the state and federal laws.

WHISTLEBLOWER IMMUNITY

Finally, one of the other interesting parts of the DTSA is that it provides immunity from civil or criminal liability to any whistleblower who discloses trade secrets to local, state, or federal law enforcement agencies for the sole purpose of reporting or investigating a suspected violation of the law.

There is one reported decision applying the whistleblower immunity provision in *Unum Group v. Loftus* (D. Mass.). In that case, Unum Group brought suit against its employee for taking numerous boxes of documents and a laptop computer containing the company's confidential information off site. The employee tried to dismiss the case, arguing that the whistleblower immunity provision barred the suit, because he was taking the information to an attorney as part of a whistleblowing effort. The court declined to dismiss the lawsuit, finding that the whistleblower immunity provision is akin to an affirmative defense that has to be established under the factual record. The court would not grant the motion to dismiss because there was insufficient information in the pleadings alone to determine whether the defense applied as a matter of law.

So, companies contemplating bringing trade secret misappropriation lawsuits will not only need to assess whether their employees have misappropriated trade secrets, but why they did so. In most cases, one would expect that the whistleblower immunity provision will not be applicable, but companies will need to be aware of its existence when bringing cases against employees and plan accordingly.

WHAT LIES AHEAD FOR THE DTSA

The DTSA appears to be moving ahead in much the way that its proponents hoped. It has opened the door to the federal courthouse for many trade secret owners, and we are seeing a number of decisions by federal judges interpreting the law in a way that should lead to a more fully developed and predictable body of law on which trade secret owners can rely. The DTSA looks to be another strong and viable tool for trade secret owners to protect their most sensitive and valuable information.

Henry Sneath is a business and tort trial attorney with Picadio Sneath Miller & Norton, P.C. in Pittsburgh, PA, focusing on business, intellectual property, insurance, energy sector, products liability, catastrophic injury and tort litigation matters. He is an adjunct professor of law at the Duquesne University School of Law, a past president of DRI-The Voice of the Defense Bar and has tried over 95 cases to verdict.