

# Daily Journal

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WEDNESDAY, APRIL 26, 2017

## One year on: the federal Defend Trade Secrets Act

By Matthew Werdegar  
and Warren Braunig

The Defend Trade Secrets Act celebrates its first anniversary on May 11. When the DTSA went into effect this time last year, many questions were raised about how it would be applied and what its impact on trade secret litigation would be. With a year of jurisprudence now on the books, answers to some of those questions are emerging.

### Post-Effective Date conduct Required to Trigger DTSA Jurisdiction

One of the most hotly litigated issues under the DTSA so far has been whether trade secret misappropriations that began before the DTSA's enactment but continued afterwards can support a DTSA claim. The DTSA is clearly inapplicable to misappropriations that started and finished prior to May 11, 2016. The DTSA, by its terms, applies only to "misappropriation of a trade secret ... for which any act occurs on or after the date of the enactment" of the DTSA.

But courts so far have rejected defendants' arguments that continuing misappropriations straddling the DTSA's effective date are per se beyond the DTSA's reach. Courts have noted that if Congress intended this result, it could have simply stated that the DTSA applies to "any misappropriation of a trade secret that occurs after the enactment date." Instead, Congress made the DTSA applicable whenever "any act occurs" after the enactment date, suggesting that a misappropriation may be made up



New York Times News Service

President Barack Obama signs into law the Defend Trade Secrets Act, May 11, 2016.

of multiple acts, over time. Also, Congress left out of the DTSA the provision from the Uniform Trade Secret Act (UTSA) stating that the UTSA does not apply to continuing misappropriations "that began prior to the effective date."

It remains unclear, however, what constitutes a sufficient post-enactment "act" to make the DTSA applicable. In *Brand Energy v. Irex Contracting* (E.D. Pa. Mar. 24, 2017), the court denied a motion to dismiss and allowed the case to proceed, even though the initial misappropriation predated the DTSA, because the plaintiffs alleged that their trade secrets continued to be "currently in use" in defendant's business. But the court in *Avago Technologies v. Nanoprecision Products* (N.D. Cal. Jan. 31, 2017) took a narrower view, granting a motion to dismiss DTSA counts where the supposed post-DTSA misappropriation was *continuing to prosecute* a patent application that had improperly disclosed the plaintiff's trade secrets before the DTSA

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The case law may continue to diverge until the appellate courts have their say. But it seems clear that the surest way to hold onto federal jurisdiction in cases where the misappropriation began before May 11, 2016, is to allege some specific new prohibited act that occurred thereafter.

### Does the Ex Parte Seizure Remedy have Teeth?

One of the most striking features of the DTSA, borrowed from the Lanham Act's anti-counterfeiting provisions, is an ex parte seizure provision that allows aggrieved parties to seek temporary seizure of physical items containing trade

secrets. The remedy is draconian — property can be seized by U.S. marshals for up to a week, without prior notice, until a hearing takes place. But Congress explicitly noted that it should be used "only in extraordinary circumstances," when there is a concrete showing that, without a seizure, the defendant "would destroy, move, hide or otherwise make such matter inaccessible to the court."

In the handful of orders to date addressing ex parte seizure requests, courts have been reluctant to exercise their new power. For example, in *OOO Brunswick Rail Management v. Sultanov* (N.D. Cal. Jan. 6, 2017), the court found a strong likelihood that the defendant employees had misappropriated trade secrets from their Russian employer, and were surreptitiously coordinating with their employer's international creditors. The court also recognized the risk that the defendants might delete relevant material from their email accounts. But, rather than order a seizure under the DTSA, the court issued an expansive Rule 65 temporary restraining order (TRO) and required relevant electronic devices be turned into the court within 14 days.

In *Mission Capital Advisors v. Romaka* (S.D.N.Y. July 29, 2016), the court did ultimately authorize an ex parte seizure of trade secret files from the defendant's computer. But the court approved the seizure only after the defendant refused to appear at a TRO hearing and evaded service of an earlier temporary restraining order. The court also imposed detailed limitations on the scope, timing and manner of the seizure.

As reflected in these two cases, courts so far are approaching the ex parte seizure remedy gingerly, even when the parties are foreign nationals and there are real concerns of spoliation of evidence or imminent disclosure of the trade secrets. Ex parte seizure under the DTSA should therefore be treated as a long shot at best. But there are some early indications that the reluctance to use this more dramatic remedy may be leading courts to impose tougher TROs under their Rule 65 powers.

### **Will the DTSA Undermine Protections for Defendants Built into California Trade Secret Law?**

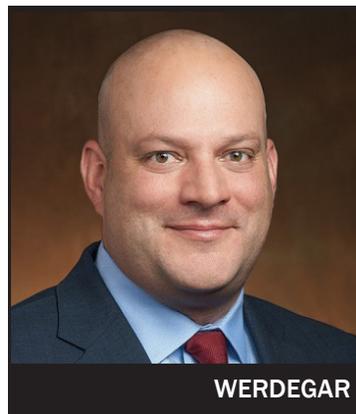
Trade secret defendants in California have grown accustomed to the protections afforded by the Code of Civil Procedure Section 2019.210 requirement that a trade secret plaintiff may not commence discovery until it identifies its trade secrets

with “reasonable particularity.” The DTSA does not include an analogous provision. The DTSA only explicitly requires a particularized identification of trade secrets in connection with its ex parte seizure provisions. Nonetheless, parties litigating DTSA claims in California’s federal courts should not expect the “reasonable particularity” requirement to fall by the wayside.

Even before the enactment of the DTSA, many federal courts in California required a particularized identification of trade secrets *independent* of Section 2019.210, either as a pleading requirement under Rule 8 or pursuant to their authority to control the timing and scope of discovery. And at least one court has now dismissed a DTSA claim for failure to plead the trade secrets at issue with sufficient particularity. *See Space Data Corp. v. X* (N.D. Cal. Feb. 16, 2017). Thus, while the identification requirement will no

doubt continue to be litigated, it appears likely that the “reasonable particularity” requirement will be part of DTSA jurisprudence in California.

In sum, as more decisions come out and the federal appellate courts begin to have their say, the DTSA may yet remake trade secret litigation. But if year one is any guide, it seems far more likely that federal trade secrets law will develop cautiously, building on state law, rather than taking trade secrets law in a wholly new direction.



**Matthew Werdegar** is a partner at Kecker, Van Nest & Peters in San Francisco, whose practice focuses on litigating and trying complex patent and trade secret disputes. He may be reached at (415) 676-2248 or [mwerdegar@kecker.com](mailto:mwerdegar@kecker.com).

**Warren Braunig** is a partner at Kecker, Van Nest & Peters in San Francisco who specializes in highstakes commercial and intellectual property litigation. He may be reached at (415) 773-6642 or [wbraunig@kecker.com](mailto:wbraunig@kecker.com).

