

THE DEFEND TRADE SECRETS ACT: A YEAR IN REVIEW

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The United States District Court for the Northern District of California is at the center of trade secrets litigation. Of the hundreds of complaints filed alleging causes of action under the Defend Trade Secrets Act (DTSA) since its enactment on May 11, 2016, the majority have been filed in this district. It should come as no surprise that this court has issued more decisions concerning the DTSA than any other jurisdiction.

The Northern District of California dominates trade secrets litigation quantitatively and qualitatively. Judge

Jon S. Tigar granted the first temporary restraining order in a case brought under the DTSA, less than a month after the statute's enactment date. *Henry Schein, Inc. v. Cook*, No. 16-cv-03166-JST, 191 F. Supp. 3d 1072 (N.D. Cal. June 10, 2016) (Tigar, J.). And later trade secrets disputes between technology giants have garnered significant media attention, most obviously Google's and Waymo's action against Uber (Case No. C 17-00939 WHA), but also SolarCity's action against SunPower (Case No. 16-CV-05509-LHK) and Space Data's case against Google X (Case No. 16-CV-03260-BLF).



The San Francisco Bay Area is leading a larger trend of burgeoning trade secrets litigation. The new federal law has triggered nearly a doubling of trade secrets complaints filed year over year. For attorneys advising clients on how to protect valuable intellectual property, it is essential to follow the key developments in federal jurisprudence of trade secrets law.

PRELIMINARY RELIEF IS POSSIBLE, BUT DIFFICULT, TO OBTAIN

Federal courts are clear that preliminary relief should be reserved for extraordinary circumstances. The DTSA allows for three main forms of preliminary relief: an ex parte seizure order, a temporary restraining order (TRO), and a preliminary injunction.

Many legal scholars expressed alarm at early drafts of the DTSA because its ex parte seizure provisions appeared ripe for abuse. But those fears do not appear to have materialized. Only one public case to date has granted an ex parte seizure order, and only after the defendant repeatedly evaded service. See *Mission Capital Advisors, LLC v. Romaka*, No. 1:16-cv-05878-LLS, Dkt. 7 (S.D.N.Y. July 29, 2016). In contrast, other courts have declined to grant requests for a seizure order in deference to alternative forms of relief, like expedited discovery and preservation orders. See *Dazzle Software II, LLC v. Kinney*, No. 16-CV-12191, Dkt. 20 (E.D. Mich. July 18, 2016); *OOO Brunswick Rail Management v. Sultanov*, 2017 WL 67119 (N.D. Cal. Jan. 6, 2017).

Although a seizure order appears nearly unobtainable, trade secrets owners have had more mixed success in obtaining TROs and preliminary injunctions. Courts most frequently deny requests for a TRO because plaintiffs fail to show a

genuinely imminent risk of harm. For example, *Primo Broodstock, Inc. v. American Mariculture, Inc.*, 2017 WL 393871 (M.D. Fla. Jan. 29, 2017).

Several plaintiffs have obtained TROs and preliminary injunctions of limited impact. In the very first order providing relief under the DTSA, for example, Judge Tigar set a trend by enjoining the defendant, a former employee, from disclosing plaintiff's trade secrets, but did not enjoin her from soliciting plaintiff's customers. *Henry Schein, Inc. v. Cook*, 191 F. Supp. 3d 1072 (N.D. Cal. 2016). Similarly, in *AllCells, LLC v. Zhai*, 2017 WL 1173940 (N.D. Cal. Mar. 29, 2017), the court granted a preliminary injunction, but only to bar defendants from using any confidential information allegedly misappropriated from the plaintiff.

Only a handful of decisions—involving unusually compelling allegations of wrongdoing—have granted preliminary relief enjoining defendants from employment or from soliciting customers. Recently in *Waymo LLC v. Uber Tech., Inc.*, 2017 WL 2123560 (N.D. Cal. May 15, 2017), Judge William Alsup found that Waymo “has shown compelling evidence that its former star engineer, Anthony Levandowski, downloaded over 14,000 confidential files from Waymo immediately before leaving his employment there.” In addition to ordering the return of those files and expedited discovery, the court preliminarily enjoined Uber to “remove [Levandowski] from any role or responsibility pertaining to LiDAR,” a key technology in developing driverless cars.

The *Waymo* injunction echoes similar provisional relief ordered outside this jurisdiction. In *T&S Brass and Bronze Works, Inc. v. Slanina*, 2017 WL 1734362 (D.S.C. May 4, 2017), defendants sold their company to plaintiff and then allegedly began a competing business using the same trade secrets they had just sold. The district court granted a preliminary injunction barring use of the trade secrets and any business with a broad range of customers. In *Protection Technologies, Inc. v. Ribler*, 2017 WL 923912 (D. Nev. Mar. 8, 2017), Protech alleged that Ribler, its former employee, in the early morning hours after he was terminated, downloaded information from Protech's customer manage-

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ment system to a private drive. The court enjoined Protech's former employee from soliciting business from Protech's customers or assisting another person from doing so. In *Panera, LLC v. Nettles*, 2016 WL 4124114 (E.D. Mo. Aug. 3, 2016), the district court enjoined Papa John's from hiring Nettles, because Nettles wiped his Panera work-computer before returning it.

COURTS ARE EAGER TO DISMISS CLAIMS UNDER THE DEFEND TRADE SECRETS ACT

Of the more than two dozen decisions adjudicating motions to dismiss claims under the DTSA on issues of substantive law—as opposed to jurisdictional or procedural grounds—most courts have dismissed the trade secrets claim, although usually without prejudice.

The first trap for the unwary concerns timing. The DTSA only applies to conduct after its May 11, 2016, enactment date. But that conduct may be the disclosure or use of trade secrets information, even if the improper acquisition of the trade secrets occurred earlier. *Molon Motor and Coil Corp. v. Nidec Motor Corp.*, 2017 WL 1954531 (N.D. Ill. May 11, 2017) (holding plaintiff adequately alleged continuing use). A troika of local decisions, however, dismissed DTSA claims that failed specifically to allege postenactment conduct. See *Space Data Corp. v. X*, 2017 WL 3007078 (N.D. Cal. July 14, 2017); *Cave Consulting Group, Inc. v. Truven*

Health Analytics Inc., 2017 WL 1436044 (N.D. Cal. Apr. 24, 2017); *Veronica Foods Company v. Ecklin*, 2017 WL 2806706 (N.D. Cal. June 29, 2017). But other courts have been more generous when a complaint does not distinguish between pre- and postenactment conduct. *Singer v. Stuerke*, 2017 WL 2603305 (D. Nev. June 14, 2017) (rejecting that complaint should be dismissed for not specifying postenactment conduct, but dismissing the DTSA claim on other grounds).

The second trap is to fail to allege a nexus to interstate commerce. District courts have granted motions to dismiss DTSA claims for simply omitting this element of the claim. For example, *Hydrogen Master Rights, Ltd. v. Weston*, F.Supp.3d, 2017 WL 78582 (D. Del. Jan. 9, 2017).

The third and most challenging trap is to fail to identify trade secrets with adequate specificity where it appears some of the alleged trade secrets are public. In *Veronica Foods*, for example, US Magistrate Judge Joseph C. Spero dismissed the DTSA claim because the pleadings failed to identify the portions of plaintiff's customer list that were allegedly secret. Similarly, in *Profil Institut fur Stoffwechselforschung GMBH v. Prosciento, Inc.*, 2017 WL 1198992 (S.D. Cal. Mar. 31, 2017), the court dismissed part of the trade secrets claim concerning trade secrets that plaintiff failed to distinguish from general knowledge in the industry.

THE INEVITABLE DISCLOSURE DOCTRINE IS NOT GOING AWAY

California trade secrets litigators know that other jurisdictions will enjoin an employee from competitive work if it appears the employee's general knowledge and expertise create a likelihood that they will "inevitably disclose" trade secrets, but that doctrine has been roundly rejected in this state. The DTSA sought to preserve the jurisdictional variance: it does not permit courts to issue an injunction based "merely on the information the person knows" under the statute, but also does not supersede state law. See *Express*

Scripts, Inc. v. Lavin, 2017 WL 2903205 (E.D. Mo. July 7, 2017) (granting TRO under state trade secrets law on theory of inevitable disclosure).

The US Court of Appeals for the Third Circuit recently called attention to the inevitable disclosure doctrine. In *Fres-co Systems USA, Inc. v. Hawkins*, 2017 WL 2376568 (3rd Cir. June 1, 2017), Fres-co sued former sales employee Hawkins for trade secrets misappropriation. The district court issued a preliminary injunction barring Hawkins from disclosing confidential information or soliciting the twelve clients he served while working for Fres-co. The Third Circuit remanded, holding the district court failed to address three of the four factors for issuing a preliminary injunction—likelihood of success, balance of the hardships, and the public interest, but preserving the injunction pending reconsideration. In addressing irreparable harm, the Third Circuit stated: "Given the substantial overlap (if not identity) between Hawkins's work for Fres-co and his intended work for Transcontinental—same role, same industry, and same geographic region—the District Court was well within its discretion to conclude Hawkins would likely use his confidential knowledge to Fres-co's detriment." The Third Circuit did not, however, cabin that holding to the state law trade secrets claim.

Trade secrets litigation is likely to increase over time, particularly as courts appear to be placing restrictions on patent litigation. Companies and employees can minimize exposure to trade secrets disputes by setting out clear expectations at the outset of an employment or business relationship, but trade secrets owners need to be prepared to act quickly if a relationship deteriorates and there is a serious risk of misappropriation.

Sebastian Kaplan litigates high-stakes intellectual property disputes involving trade secrets, trademarks, and copyrights. He also defends technology innovators from privacy and false advertising class actions. Kaplan's clients have included TomTom, AlEn USA, Nimble Storage, and others, ranging from large technology companies to newly minted start-ups.