

The Defend Trade Secrets Act – 2019 In Review

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Client Advisory

The Defend Trade Secrets Act of 2016 (“DTSA” or “Act”), signed into law in May of 2016, has three main components.[1] First, the Act creates a streamlined way into federal court for claims of trade secret misappropriation that relate to a product or service used in interstate commerce (a conceptually low threshold but, as discussed below, one that must be pleaded), and provides for meaningful penalties of double damages and attorney’s fees for willful and malicious misappropriation. Second, the DTSA provides owners of trade secrets with a mechanism to seize property to prevent propagation or dissemination of the trade secret in certain circumstances. Finally, the Act also grants immunity to whistleblowers who disclose a trade secret to the government in the course of reporting misconduct and affirmatively imposes a duty on employers to advise employees, contractors and consultants of these protections.

We have been following the DTSA since its enactment, and our previous advisories, covering the utilization of the Act since its passage, can be found on our website.[2] In those advisories we focused on how trade secret law has changed in the wake of the DTSA and how, in many ways, it has stayed the same. As we approach the fourth anniversary of the Act’s passage, we look back at how the DTSA developed throughout 2019 and the beginning of this year.

The DTSA Applies To Acts Of Misappropriation Occurring Entirely Outside Of The United States

The DTSA applies to conduct that occurs outside the United States under two sets of circumstances. First, under 18 U.S.C. 1837(1), it applies if the offender is a U.S. citizen, permanent resident, or entity incorporated in the United States. Second, under 18 U.S.C. 1837(2), it applies to conduct occurring outside the United States if an “act in furtherance of the offense was committed in the United States.” Careful consideration of the scope of this extraterritoriality provision is necessary in light of the U.S. Supreme Court’s decision in *Morrison v. National Australia Bank*, 561 U.S. 247 (2010), which generally narrowed application of U.S. laws abroad.[3]

In 2019, several cases demonstrated that an “act in furtherance of” misappropriation under the DTSA is read broadly by some courts, reaching a wide range of conduct. For example, a foreign company could be liable for misappropriation for using trade secrets its employees acquired from their previous non-United States employers to provide a competing service in the United States.[4] As another example, a foreign individual’s misappropriation of trade secrets that occurred during his routine business trips to his employer’s American offices qualified as “an act in furtherance of the offense ... committed in the United States[.]”[5]

However, the requirement for establishing an “act in furtherance” as per the DTSA must still be properly pled. For example in *Prov International, Inc. v. Rubens Dalle Lucca*, the court granted a motion to dismiss where “[t]he amended complaint contain[ed] no allegation suggesting that the defendants attempted to recruit an employee from the United States, that the defendants acquired in the United States the ... ‘trade secrets,’ or that the defendants used the trade secrets in the United States.”[6] In reviewing areas of the complaint where the plaintiffs alleged acts that occurred domestically, the court noted that the amended complaint alleged that one of the defendants traveled to an event in Nevada to tender his resignation to the plaintiffs’ CEO.[7] However, this statement was not supported by any facts that would connect the defendant’s attendance at the event with the alleged misappropriation of the plaintiffs’ trade secret.[8] Further, although one of the plaintiffs was a Florida

corporation and lost revenue due to the alleged misappropriation, the court concluded that the damages were not part of the offense but instead an effect of a completed operation.[9] Thus, the plaintiffs failed to allege facts to demonstrate “an act in furtherance of the offense was committed in the United States.”[10]

Motorola Sols., Inc. v. Hytera Commc'ns Corp., Ltd., provided additional guidance regarding the interpretation of “act in furtherance” when it explained that the DTSA applies to acts of misappropriation occurring even entirely outside the United States, notwithstanding *Morrison*'s presumption against extraterritorial application.[11] According to the analysis in *Motorola Sols.*, when Congress enacted the DTSA, it intended for the DTSA to operate in the same manner as Section 1836 within the Economic Espionage Act (“EEA”).[12] Section 1836(b) provides that in private civil actions, an owner of a trade secret that is misappropriated may bring a civil action under the subsection if the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce.[13] *The Motorola Sols.* court's opinion concludes that since the DTSA simply provides rights for those whose trade secrets were misappropriated, and does not alter the terms of the EEA, the DTSA should be interpreted as including the extraterritoriality section of the EEA, Section 1836(b).[14]

The outcome in *Motorola Sols., Inc.* is encouraging for plaintiffs whose intellectual property has been misappropriated internationally, but it remains to be seen if this case will survive appellate scrutiny in light of *Morrison*.

DTSA Claims Must Allege A Sufficient Nexus Between Trade Secret And Product Or Service Used In Interstate Commerce

In earlier advisories, we noted that courts have not hesitated to dismiss DTSA claims where the claimant fails to allege a trade secret in sufficient detail.[15] To establish a claim under the DTSA, a party must plead a protectable trade secret by alleging that it possesses (1) secret information, (2) that is reasonably protected, and (3) that derives value from its secrecy. Where a litigant fails to adequately plead any of these elements, misappropriation claims will fail.[16] Ongoing dismissals at this early stage reveal the perils of failing to properly plead each element of a trade secret. Recent case law provides more guidance as to requirements that must be satisfied in order for plaintiffs alleging a violation of the DTSA to survive a motion to dismiss.

For example, the United States District Court for the District of Hawaii focused on the interstate nexus prong of the DTSA in granting a motion to dismiss. In *DLMC, Inc. v. Flores*, the plaintiff brought claims under the DTSA against its former office manager, Benedicta Flores, and a competing business, Loving Care Health Provider, Inc. (LCHP).[17] DLMC terminated Flores's employment, and Flores subsequently began working at LCHP.[18]

The court held that DLMC failed to allege how the misappropriation related to interstate services despite the fact that DLMC argued that all of its clients had federal identification numbers, DLMC's services were regulated by the federal government, and DLMC was federally funded.[19] According to the court, the factors which DLMC argued were illustrative of interstate commerce were “neither connected in the Complaint nor in any of DLMC's other submissions to the Court, and, indeed, it appears that DLMC does not offer any interstate services.”[20] In other words, the plaintiff failed to show how the allegedly misappropriated trade secrets were related to the interstate services purportedly offered by DLMC.

DLMC, Inc. demonstrates that simply listing examples of federally managed facets of a business are not enough to establish the interstate commerce necessary to support a DTSA claim.[21] Instead the plaintiff must describe how the allegedly misappropriated trade secret relates to interstate commerce.

Plaintiffs Bringing DTSA Claims Have A High Burden To Establish That Attorneys' Fees Are Warranted

Recent case law has provided guidance as to when attorney's fees should be granted in connection with DTSA claims. If a claim of misappropriation is made in bad faith, the DTSA allows for reasonable attorney's fees to a prevailing party.[22] In addition to establishing that

the plaintiff acted in bad faith, a defendant must also establish that it is in fact a prevailing party.[23] In *Southern HVAC Corp.*, the court clarified that a prevailing party was one that received a judgment on the merits or obtained a court ordered consent decree that created a material alteration of the legal relationship of the parties.[24] However, in the case before the court, the plaintiffs' amended complaint was not adjudicated on the merits and instead was dismissed without prejudice for lack of jurisdiction.[25] The court concluded that since the complaint was dismissed for lack of jurisdiction and not on the merits, the defendant was not a prevailing party under the DTSA, and the court denied the defendant's request for attorney's fees.[26]

In another case, *Insurent Agency Corp. v. Hanover Ins. Co.*, the plaintiffs filed a complaint alleging, inter alia, that the defendants violated the DTSA by using certain legal agreements that appeared to be identical to copyrighted legal agreement used by the plaintiffs in their own business.[27] The defendants moved for summary judgment, which the court granted with respect to the DTSA claim because it found that the plaintiffs proffered insufficient evidence that they owned the copyrights at issue.[28] The defendants subsequently moved for attorney's fees with respect to several of their claims, including their DTSA claim.[29] The magistrate judge recommended denial of the motion for attorneys' fees, and the district court adopted the magistrate's recommendation.[30]

According to the magistrate judge, the plaintiffs alleged that the defendants used the proprietary information, but did not show that the defendants knew that the information was a trade secret or that the information was acquired through improper means.[31] The defendants prevailed on summary judgment because the plaintiffs' DTSA claim failed as a matter of proof.[32] This did not indicate that the DTSA claim lacked a colorable basis or was brought in bad faith, which would have been necessary for defendants to be entitled to attorney's fees.[33] A claim has a colorable basis when it is supported by at least some factual and legal basis.[34] A claim is made in bad faith when it is both meritless and brought for an improper purpose, like harassment or delay.[35] Where, as in *Insurent*, the claim is dismissed but there was nonetheless a colorable claim that was not brought in bad faith, the prevailing defendant is not entitled to recover attorney's fees.

The cases above show that while each unique situation has its own specific facts that impact whether or not a judge will award attorneys' fees to parties that successfully litigate DTSA claims, the burden to establish that such fees are warranted can be high.[36] The dismissal of a claim through summary judgment alone is not likely to justify attorneys' fees in light of this high standard.

Conclusion

As we continue to monitor the DTSA, it is clear that it is coming into its own, and a body of law is developing. While the substantive law governing the DTSA is in many ways similar to its state law analogues, it is important to note that additional hurdles may appear when pursuing federal claims.

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For more information concerning the matters discussed in this publication, please contact the authors **Jeffrey S. Boxer** (212-238-8626, boxer@clm.com), **John M. Griem, Jr.** (212-238-8659, griem@clm.com), **Alexander G. Malyshev** (212-238-8618, malyshev@clm.com) **Nilima M. Singh** (212-238-8623, singh@clm.com), or your regular Carter Ledyard attorney.

[1] Defend Trade Secrets Act of 2016, Pub. L. No. 114-153, 130 Stat. 376.

[2] See The Defend Trade Secrets Act – 2016 In Review, available at <https://www.clm.com/publication.cfm?ID=5579>; The Defend Trade Secrets Act – 2018 Update, available at <https://www.clm.com/publication.cfm?ID=5641>; The Defend Trade Secrets Act – How to Win at the Pleading Stage available at <https://www.clm.com/publication.cfm?ID=5643>.

[3] See, generally, Elizabeth A. Rowe and Giulia C. Fariior, *Revisiting Trade Secret Extraterritoriality*, Rowe & Fariior, B.U. J. SCI. & TECH. L., Vol. 25:2, 2019 at 432-450.

[4] *Luminati Networks, Ltd. v. BLSscience Inc.*, 2019 U.S. Dist. LEXIS 79843, *24-26, 2019 WL 2084426 (E.D. Tex. May 13, 2019).

[5] *MACOM Tech. Sols. v. Litrinium, Inc.*, 2019 U.S. Dist. LEXIS 167880, *12-13, 2019 WL 4282906 (C.D. Cal June 3, 2019); see also *vPersonalize Inc. v. Magnetize Consultants Ltd.*, 2020 U.S. Dist. LEXIS 18491, *34-35 2020 WL 534505 (W.D. Wash., Sept 12, 2019)(finding that an “act in furtherance” occurred in the United States where infringer improperly obtained access to plaintiff’s proprietary information through at least one American third-party, which defendant acknowledged was an “act alleged to have been committed in the United States.”).

[6] *Prov Int’l, Inc. v. Rubens Dalle Lucca*, 2019 U.S. Dist. LEXIS 187060, *8-9, 2019 WL 5578880 (M.D. Fla., June 14, 2019).

[7] *Id.* at 9.

[8] *Id.*

[9] *Id.*

[10] *Id.*

[11] *Motorola Sols., Inc. v. Hytera Commc’ns Corp., Ltd.*, 2020 U.S. Dist. LEXIS 35942, 36* (N.D. Ill. Jan. 31, 2020).

[12] *Id.* at 14.

[13] *Id.* at 15.

[14] *Id.* at 27.

[15] The Defend Trade Secrets Act – 2018 Update, footnote 5, available at <https://www.clm.com/publication.cfm?ID=5641>.

[16] *Id.* at footnote 6.

[17] *DLMC, Inc. v. Flores*, 2019 U.S. Dist. LEXIS 10785, *2, 2019 WL 309754 (D. Haw. Jan 23, 2019).

[18] *Id.*

[19] *Id.* at 4-5.

[20] *Id.*

[21] See also *Islands Hospice, Inc. v. Duick*, 2019 U.S. Dist. LEXIS 162416, *16, 2019 U.S.P.Q.2D (BNA) 357598, 2019 WL 4620369 (D. Haw. Sept. 23, 2019) (granting defendant’s motion to dismiss plaintiff’s DTSA claim where plaintiff failed to establish relationship between its program and how its programs’ purported services relied on Medicare funding.).

[22] 18 U.S.C. § 1836(b)(3)(D); *Southern HVAC Corp. v. Konforte*, 2019 U.S. Dist. LEXIS 30216, *3 (M.D. Fla. Feb 8, 2019), adopted by *Southern HVAC Corp. v. Konforte*, 2019 U.S. Dist. LEXIS 29320, *2, 2019 WL 913372 (M.D. Fla. Feb 25, 2019).

[23] *Id.* at 3.

[24] *Id.* (internal citations omitted).

[25] *Id.*

[26] *Id.*; *Southern HVAC Corp. v. Konforte*, 2019 U.S. Dist. LEXIS 29320, *2, 2019 WL 913372 (M.D. Fla. Feb 25, 2019).

[27] *Insurent Agency Corp. v. Hanover Ins. Co.*, 2020 U.S. Dist. LEXIS 2565, *3, 2020 WL 86813 (S.D.N.Y. Jan 8, 2020).

[28] *Id.* at 11.

[29] *Id.* at 6.

[30] *Insurent Agency Corp. v. Hanover Ins. Co.*, 2020 U.S. Dist. LEXIS 2565, *2, 2020 WL 86813 (S.D.N.Y. Jan 8, 2020); adopted by *Insurent Agency Corp. v. Hanover Ins. Grp., Inc.*, 2020 U.S. Dist. LEXIS 39437, *14 (S.D.N.Y. Mar. 6, 2020).

[31] *Id.*

[32] *Id.* at 26.

[33] *Id.* at 28.

[34] *Id.*

[35] *Id.*

[36] *Akira Techs., Inc. v. Conceptant, Inc.*, 773 Fed. Appx. 122, 126, 2019 U.S. App. LEXIS 13769, *6, 2019 WL 2024830 (4th Cir. May 8, 2019) (finding the district court did not err in holding, inter alia, that attorney's fees were not warranted where plaintiff did not act in bad faith when bringing DTSA claim because the evidence showed that it had at least some chance of success on DTSA claim).

related professionals

Jeffrey S. Boxer / Partner

D 212-238-8626

boxer@clm.com

John M. Griem, Jr. / Partner

D 212-238-8659

griem@clm.com

Alexander G. Malyshev / Partner

D 212-238-8618

malyshev@clm.com