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Client Alert Commentary

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5 Lessons Learned as the Defend Trade Secrets Act Turns One

While courts only sparingly grant* ex parte *seizures under the DTSA, the availability of federal jurisdiction and extraordinary remedies may be enhancing enforcement efforts.

The Defend Trade Secrets Act of 2016 (DTSA) was signed into law May 11, 2016. One year later, Latham's analysis of federal case filings and court rulings reveals five important lessons for businesses that protect their innovations as trade secrets, or that may find themselves needing to defend against allegations of misappropriation.

1. Courts are (rarely) granting *ex parte* seizures.

In addition to creating federal jurisdiction for trade secret actions, the DTSA created an extraordinary new remedy: *ex parte* orders "for the seizure of property necessary to prevent the propagation or dissemination of the trade secret" alleged to be stolen.[1] Just a few months after the DTSA became law, a federal court in the Southern District of New York issued such an order in *Mission Capital Advisors LLC v. Romaka*.[2] In that case, which seems to be the only case with a published *ex parte* seizure order, Mission Capital Advisors LLC (MCA) accused Mr. Romaka, a former employee, of misappropriation.[3] MCA investigated Mr. Romaka's digital accounts and allegedly discovered that he had downloaded MCA's trade secrets, including internal financial and deal data, and MCA's entire contact list.[4] When confronted, Mr. Romaka denied he had retained the data and permitted MCA to investigate his computer.[5] MCA learned that Mr. Romaka allegedly had downloaded *more* data than initially believed, and contrary to his denial, retained the contact list files, specifically masking the file type and changing the filename.[6] MCA asked Mr. Romaka to allow MCA's expert to remove the trade secret data, but Mr. Romaka stopped responding to MCA's communications.[7]

Initially, MCA sought and received a temporary restraining order (TRO) commanding Mr. Romaka to appear in court in three days to show cause why a preliminary injunction should not issue, in part because Mr. Romaka had stopped responding to MCA's communications.[8] MCA served the order by email and made five attempts at personal service, but Mr. Romaka did not respond to the email and did not appear for the hearing.[9] This lack of response persuaded the judge that further Rule 65 orders would be inadequate.[10] The court issued an *ex parte* order commanding United States Marshals to seize two files comprising MCA's contact list from Mr. Romaka's laptop.[11] Five days later, three marshals woke Mr. Romaka in his apartment.[12] A court-approved expert executed the seizure[13] and immediately turned over the files to the court.[14] A few weeks later, Mr. Romaka allowed MCA's expert to remove the remaining trade secret data.[15] MCA decided that further court action to determine whether other copies existed was not worth the time or effort.[16] The court returned the seized files to MCA and closed the case, but ordered MCA to retain the files for one year before destroying them, allowing Mr. Romaka the opportunity to argue that the files were improperly seized.[17]

While Latham's research has not turned up any other public seizure orders, at least one commentator has indicated that similar orders have issued from other courts, but remain under seal.[18]

2. The bar is high for trade secret owners to obtain *ex parte* seizures.

Mission Capital Advisors demonstrates the high bar plaintiffs must meet to obtain an *ex parte* seizure order and explains why such orders have thus far been rare. The DTSA contains a substantial list of requirements that plaintiffs must meet before a court may issue a seizure order.[19] In addition to the standard showings for a TRO, the first requirement is that an order under Rule 65 or other equitable relief would be inadequate "because the party to which the order would be issued would evade, avoid or otherwise not comply with such an order."[20] The claimant must also show that the defendant "would destroy, move, hide, or otherwise make such matter inaccessible to the court" if notice were provided that person.[21] The effect of these provisions is that courts have been unwilling to issue seizure orders unless the plaintiff demonstrates that simply ordering the defendant to turn over or not to use the disputed material would be ineffective. In practice, this can mean establishing that the defendant will ignore the court's orders.[22] Courts have declined to grant the seizure remedy where they find that plaintiffs have not demonstrated that a Rule 65 order would be inadequate.[23] As thought leaders discussed at the USPTO's recent Trade Secret Symposium (the Symposium), the seizure remedy seems targeted at situations where disclosure is imminent, *e.g.*, the alleged thief is on a plane, on the tarmac and about to take off.[24]

3. DTSA plaintiffs may obtain emergency relief even if courts deny *ex parte* seizure requests.

The *ex parte* seizure remedy is an extraordinary measure that courts have been reluctant to grant. However, in effect, the availability of this new remedy may cause federal courts to perceive TROs as less extraordinary by comparison. Some DTSA plaintiffs have referenced the *ex parte* seizure provision without requesting such relief, while others request seizure in addition to a TRO. In either case, the chance of obtaining a seizure is likely low, but courts facing such a motion may conclude that "you're much more likely to get a TRO or preliminary injunction."[25] Indeed, courts appear to be granting TROs and preliminary injunctions at a higher rate.[26]

4. DTSA claims must be based on acts of misappropriation that occurred after enactment in May 2016.

In order to state a claim under the DTSA, courts have consistently required that some act of misappropriation occurred after the law's effective date, May 11, 2016.[27] Under the DTSA, misappropriation includes improper acquisition, disclosure, or use of a trade secret.[28] Courts have permitted claims where such illegal conduct allegedly occurred both before *and* after enactment. For example, if an employee absconded with trade secrets on May 1, the employer can maintain a claim if the trade secrets were used or disclosed, each of which are independent acts of misappropriation, after May 11.[29] Courts have dismissed claims and refused motions to amend where plaintiffs failed to make any allegation of post-enactment misconduct.[30]

5. But at least one court has found that *pre*-enactment acts of misappropriation may also be compensable under the DTSA.

The DTSA may also apply to acts of misappropriation that occurred prior to its enactment.[31] In *Brand Energy*, the defendants argued that the DTSA, if applied to their alleged pre-enactment misappropriation, would violate the Constitution's *Ex Post Facto* clause.[32] The court undertook a detailed analysis of the statute's language, particularly in comparison to Uniform Trade Secrets Act (UTSA), which most states have adopted in some form.[33] While the DTSA draws heavily from the UTSA, the court noted that the

drafters did not include the UTSA's provision on anti-retroactivity, though they could have done so.[34] The court concluded that the omission was intentional and Congress intended that the DTSA have retroactive effect.[35] The court denied the defendants' motion to dismiss, reasoning that the misappropriation in question was not "completed before [the DTSA's] enactment."[36] The court's reasoning suggests that trade secret owners, in at least some jurisdictions, may be able to recover damages for a course of trade secret misappropriation that began before May 11, 2016, but includes specific acts of misappropriation occurring after May 11, 2016.

Conclusion

One year in, the contours of the DTSA have begun taking shape but much remains unknown. The *ex parte* seizure remedy is a rare and extraordinary remedy, but courts are willing to grant such relief where warranted. Businesses seeking such a remedy must be prepared to make the specific and detailed factual showings required under the statute. Those accused of misappropriation should be particularly responsive to and solicitous of court orders to avoid unexpected visits from U.S. Marshals. Businesses dealing with potential trade secret theft should consider whether and how the facts of specific incidents may give rise to DTSA claims. Even if the suspected misappropriation occurred prior to May 11, 2016, businesses should consult with their lawyers to determine whether subsequent activity may provide the basis for a claim and whether damages are available for the earlier conduct, which may depend on jurisdiction. Latham will continue to monitor and provide analysis about development of the DTSA.

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Endnotes

[1] 18 U.S.C. § 1836(b)(2)(A)(i).

[2] *Mission Capital Advisors LLC v. Romaka*, No. 1:16-cv-05878-LLS (D.I. 7) (S.D.N.Y. July 29, 2016).

[3] *Id.* (D.I. 1) at ¶ 1.

[4] *Id.* at ¶ 13.

[5] *Id.* at ¶ 17.

[6] *Id.* at ¶ 18.

[7] *Id.* at ¶¶ 19, 21.

[8] *Id.* (D.I. 5) at 2.

[9] *Id.* (D.I. 7) at 2.

[10] *Id.*

[11] *Id.* at 5

[12] *HNRK Obtains First Seizure Order Under the Defend Trade Secrets Act*, HNRK, http://hnrklaw.com/wp-content/uploads/2017/04/00115238.pdf?x61311 (last visited May 15, 2017).

[13] *Id.*

[14] *Mission Capital Advisors*, No. 1:16-cv-05878-LLS, (D.I. 7) at 6.

[15] *Id.* (D.I. 22) at 2.

[16] *Id.* at 3.

[17] *Id.* at 7.

[18] Eric Goldman, *The DTSA's Ex Parte Seizure Order: The "Ex" Stands for "Extraordinary"*, Tech. & Marketing L. Blog (Feb. 1, 2017), http://blog.ericgoldman.org/archives/2017/02/the-dtsas-ex-parte-seizure-order-the-ex-stands-for-extraordinary-guest-blog-post.htm ("It has also come to the author's attention that an application for ex parte seizure was granted by a federal court in Florida in October 2016.").

[19] 18 U.S.C. § 1836.

[20] *Id.* § 1836(b)(2)(A)(ii)(I).

[21] *Id.* § 1836(b)(2)(A)(ii)(VII).

[22] *See, e.g.*, *Mission Capital Advisors*, No. 1:16-cv-05878-LLS, (D.I. 7) at 2 (noting that defendant ignored court order to appear).

[23] *See, e.g.*, *Balearia Caribbean Ltd. v. Calvo*, No. 16-233000-CIV-WILLIAMS (D.I. 10), at 7-8 (S.D. Fla. Aug. 5, 2016) (finding that plaintiff failed to show that a Rule 65 order would be inadequate).

[24] United States Patent and Trademark Office, *Trade Secret Symposium Topic 2* (May 8, 2017), https://livestream.com/accounts/4828334/events/7221539/videos/155905731.

[25] *Id. See, e.g.*, *Calvo*, No. 16-233000-CIV-WILLIAMS (denying *ex parte* seizure but granting a TRO).

[26] *Trade Secret Symposium Topic 2*, *supra* note 24 (noting that 4-5 preliminary injunctions and 2-3 TROs have been granted).

[27] *See, e.g.*, *Adams Arms, LLC v. Unified Weapon Sys., Inc.*, No. 8:16-CV-1503-T-33AEP, 2016 WL 5391394 (M.D. Fla. Sept. 27, 2016); *Syntel Sterling Best Shores Mauritius Ltd. v. Trizetto Grp., Inc.*, No. 15-CV-211 (LGS) (RLE), 2016 WL 5338550 (S.D.N.Y. Sept. 23, 2016).

[28] 18 U.S.C. § 1839(5).

[29] *See, e.g.*, *Adams Arms*, 2016 WL 5391394 at *6 (finding that alleged misappropriation by improper disclosure in late May or early June was sufficient to "state a plausible claim for relief").

[30] *See, e.g.*, *Avago Techs. U.S. Inc. v. Nanoprecision Prod., Inc.*, No. 16-CV-03737-JCS, 2017 WL 412524, at *9 (N.D. Cal. Jan. 31, 2017) (granting motion to dismiss DTSA claim for failure to allege post-enactment misappropriation); *Champions League, Inc. v. Woodard*, No. 16 CIV. 2514 (RMB), 2016 WL 8193292, at *6 (S.D.N.Y. Dec. 15, 2016) (denying motion to amend for failure to allege post-enactment misappropriation).

[31] *Brand Energy & Infrastructure Servs., Inc. v. Irex Contracting Grp.*, No. 16-2499, 2017 WL 1105648, at *8 (E.D. Pa. Mar. 24, 2017).

[32] *Id.* at *5.

[33] *Id.* at *7-*8.

[34] *Id.* at *8 (quoting UTSA §11) (noting that the UTSA specifies that it "does not apply to misappropriation occurring prior to the effective date. With 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.").

[35] *Id.*

[36] *Id.* (quoting *Landgraf v. USI Film Prods.*, 511 U.S. 244, 280 (1994), *but see Adams Arms, LLC v. Unified Weapon Sys., Inc.*, No. 8:16-CV-1503-T-33AEP, 2016 WL 5391394, at *7 (M.D. Fla. Sept. 27, 2016) (limiting DTSA claims to post-enactment disclosure events).