



Podcast Transcript

The Emerging New Era for Noncompetes and Trade Secrets: The Defend Trade Secrets Act – Five Years After

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Rubenking: The restriction and legislation of noncompete agreements is gaining traction around the country. In July, President Biden signed an executive order that discussed the regulation of noncompete agreements, which in the past has only been the province of the states. To stay ahead of the game, both employers and executives need to know what changes to expect and how to best prepare for the

future. To help bring all this into focus, we have created a six-part series called The Emerging New Era of Noncompetes and Trade Secrets.

I'm Randall Rubenking, and you are listening to BakerHosts.

Our second episode, The Defend Trade Secrets Act – Five Years After, discusses the five-year anniversary of the Defend Trade Secrets Act, which created a federal system of trade secrets law for the first time. On today's episode, John Siegal talks to Mark Temple and Carey Busen, partners on BakerHostetler's Noncompete and Trade Secrets teams.

Let's listen in.

Siegal: Hello all, wherever you're located across the country; my name's John Siegal and I'm, along with Joyce Ackerbaum Cox, co-head of the BakerHostetler National Noncompete and Trade Secrets Practice Group. So, let us just get right to it. Today's subject is the Defend Trade Secrets Act, five years in. Mark, why don't you start us off with your, you know, your view of the DTSA and what impact it has had in its five years.

Temple: Sure, thank you, John. So, the DTSA was enacted, as you know, five years ago in May of 2016. When the DTSA was passed, corporate America applauded. It was actually considered by *Forbes* magazine to be one of the biggest developments in intellectual property for years. By way of background, the DTSA also sailed its way through the legislative process, as you might expect given the needs. It had strong support by both parties, passing in the House by a vote of 410 to 2, and passing unanimously in the Senate.

When it was passed, the employment law community, which I'm a part of, got very busy revising our severance agreements for clients due to a safe harbor provision contained in the act for whistleblowers. The whistleblower section of the act allows immunity from any trade secrets laws for people who make disclosures in confidence to an attorney or federal, state or local government official, solely for the purpose of reporting or investigating suspected violation of the law, or somehow filing a lawsuit under seal. This safe harbor provision contains important notice requirements for companies to provide to employees and contractors about its existence. If the notices aren't in there, the company can lose various trade secrets remedies otherwise available under the act, including, importantly, attorney's fees.

As far as timing, the statute of limitations for DTSA actions is three years, and also, that time is measured from the date on which the misappropriation is discovered or by the exercise of reasonable diligence should've been discovered. So those are some of the nuts and bolts of the DTSA; but as we look at whether the act has been effective, it is helpful to understand what Congress had hoped it would accomplish. According to the Senate report, there were three main goals of the DTSA. The first goal was to create a federal civil remedy bringing the rights of trade secrets owners into alignment with those long enjoyed by owners of other forms of intellectual property. The second goal was to promote uniformity

by providing for a single national standard for trade secrets misappropriation with clear rules and hopefully predictability for everyone involved. The third goal was to better address the concerns of what we have now: a globalized and national economy where trade secrets can be easily taken across borders, as we've all seen in our practice, and beyond the reach of American law.

The committee noted that the commission on the theft of American intellectual property has estimated that the annual losses – and this is staggering – the annual losses to the American economy caused by trade secrets theft are over \$300 billion. That same report found that trade secrets theft had led to the loss of 2.1 million American jobs annually in the theft of intellectual property was undermining the incentive for entrepreneurs to actually innovate in the United States. In passing the act, Congress noted that protecting trade secrets has become increasingly difficult in our ever-evolving technological world. Thieves are using more sophisticated methods to steal trade secrets, and the growing use of technology in cyberspace has made trade secrets protection particularly difficult.

Siegal: Mark, you, where are we at on that first legislative dual access to federal courts that we, you know, always brought, almost always brought these claims in state courts unless there was diversity or shoehorn your way in the federal question jurisdiction, but why was federal access for these claims viewed as important and what impact do you think that has had?

Temple: Sure, John. So many of us that litigate trade secrets cases like to be in federal court due generally to the increased predictability under the law and speed in which you can get matters heard. I said in Texas, and it is particularly true here in states like Texas where state judges are elected, and the judges here don't have paid law clerks, so the state dockets are backed up given the lack of resources. We also like to be in federal courts since federal courts are generally more likely to grant dispositive motions than what we see in state courts. As practitioners, we previously used the Computer Fraud and Abuse Act as a federal court hook, but as you've seen, many jurisdictions had started to erode it; and then just in June of this year, the United States Supreme Court handed down the case of *Van Buren v. United States*, which adopted a more restrictive view of the Computer Fraud and Abuse Act and made it more difficult to trigger in trade secrets cases. So, as federal court practitioners, we certainly welcome the DTSA.

Siegal: So, Carey, I know you monitor this since I get an email every day with your name on it with filing the DTSA filings in federal courts across the country. How do you think the goal of greater access to federal court has been, and how is it playing out? Had it been achieved? Are you seeing that in the courts across the country?

Busen: Yes, thanks, John. It is clear that DTSA cases were filed immediately after the enactment of the DTSA, so starting in 2016. If you look at some numbers in the five years preceding the enactment of the DTSA, so we're talking 2010 through 2015, there were approximately 1,100 federal trade secrets cases filed each year; but starting in 2017, that number started to tick up to about 1,400 cases filed per year, which clearly demonstrates an increase of federal trade secrets

litigation that I think is probably tied directly to the passage of that act. According to LexisNexis' 2021 Trade Secret Litigation Report, the trade secrets filings have remained steady since 2017, sticking around 1,400 cases filed per year. Even through the pandemic, these cases have continued to be filed. One issue that continues to come up, and I'm sure most everyone who's been involved in trade secrets litigation has encountered this issue, is the trend of when or the level of specificity that is needed to plead a trade secrets claim under the DTSA and whether that is going to be done in the complaint or, as it often turns out in cases, becomes a big battle during discovery. And in June of just this year, the Third Circuit in the case *Oakwood Labs v. Thanoo* issued an opinion reversing the dismissal of a trade secrets claim under the DTSA where the district judge made the plaintiff replead three times and then finally dismissed it a fourth time for failing to adequately plead a trade secrets claim. So I think that these pleading difficulties still exist, but there does seem to be a trend against dismissing trade secrets claims for lack of particularity.

Siegal: And how soon or how quickly do you think the impact of litigating more of these cases in federal court has to realize?

Busen: I think we saw the effects quite quickly, especially given the speed of how long these cases generally drag on in court, but people started filing these cases immediately, and the first DTSA jury verdict that I could find came out on February 27, 2017, so you know, less than a year after the statute was enacted. That case is called *Dalmatia Import Group v. Foodmatch*, and in that matter, a federal jury in Pennsylvania returned an award of \$500,000 to the plaintiff – who was a creator of a proprietary fig spread, which was interesting, I thought – for theft of trade secrets, and they also secured an injunction prevented future use of the trade secrets at issue, and then there was another \$2 million award for other claims.

Since 2017, there have been several what I would consider big-ticket cases, and one of them is *Waymo v. Uber*, which a lot of people have probably heard of. I think it is one of the most well-known DTSA cases, likely because of the parties involved, but it was filed in February 2017 by a subsidiary of Alphabet – which is Google's parent company – against Uber. And that case involved the alleged theft of over 14,000 files by a former Waymo employee who then went to Uber, and then it also included allegations of improper solicitation of Google employees by Uber.

In May of 2017 – so again, only about a year after the passage of the DTSA – the Northern District of California court awarded a preliminary injunction against Uber, including a bar on the employee further working on the technology at issue in the case. So subsequently, Uber fired the former Waymo employee and the case did proceed to trial, but only five days in, they reached a settlement in which Uber granted Waymo stock valued at \$245 million, so we're talking about significant dollars here.

There have continued to be some jury verdicts with some eye-opening damages numbers. There is a case from 2016, it is called *Epic Systems v. Tata*

Consultancy Services, and that just recently went up to the Seventh Circuit. In that case, a jury found that the defendant used fraudulent means to access and steal Epic Systems' trade secrets and other confidential information, and the jury awarded \$240 million in compensatory damages and then \$700 million in punitive damages. The district court later reduced the compensatory damage award to \$140 million and reduced the punitive number to \$280 million based on a Wisconsin statutory cap on punitive damages. On appeal, the defendant contested the award of \$280 million in punitive damages for various reasons, including that the award was not in line with the due process clause of the 14th Amendment.

And I found this analysis very interesting in that the intersection of the due process clause and the DTSA, but the Seventh Circuit actually issued two opinions – in its second amended opinion, it clarified that the Constitution is not the most relevant limit to a federal court when assessing punitive damages[,] as it comes into play only after the assessment has been tested against statutory and common-law principles. The court went on to say, indeed, a federal court can and should reduce the punitive damages award sometime before it reaches the outermost limits of due process. The Seventh Circuit focused on three guideposts for determining whether there is a due process violation with respect to punitive damages awards: one, the reprehensibility of the defendant's conduct; two, the disparity between the actual harm suffered and the punitive award; and three, the difference between the award authorized by the jury and the penalties imposed in comparable cases.

The Seventh Circuit's analysis of the first guidepost remained relatively unchanged from its original opinion, in which the court found that a punitive damages award was justified. The Seventh Circuit, however, deviated from its original opinion and its analysis of the second and third guideposts. The court found that determining the harm in the second guidepost was somewhat more difficult because the \$140 million compensatory award was based on benefit to the defendant, not harm to the plaintiff. However, the court noted that in such instances, few awards exceeding a single-digit ratio between punitive and compensatory damages will satisfy due process. In its original opinion, the court had concluded that a 2:1 ratio exceeds the outermost limit of the due process guarantee; however, the court went back and softened this language and clarified that the 2:1 ratio exceeds only the outermost limit in this particular case.

The court explained that although the defendant's conduct was reprehensible, it was not egregious. The court similarly concluded that the third guidepost warranted a 1:1 ratio of punitive to compensatory damages. Here again, while the court's original opinion applied to the federal Constitution, the amended opinion reduced the scope of the holding to be in this case only.

There have been a couple of other large jury verdicts in the past five years. In one case, called *Syntel Sterling Best Shores v. Trizetto Group*, a jury awarded punitive damages as part of an \$855 million verdict, although that case also did include a finding of copyright infringement. That dispute went back to January 2010, when the two companies started working together. The companies entered

into an agreement under which Syntel provided Trizetto with software application and product development infrastructure, consulting, and customer support. Interestingly, that case was one of the first in-person civil jury trials in the Southern District of New York since the pandemic started in October of 2020. The jury awarded \$284.8 million in damages plus \$569.7 million in punitive damages.

Just a few months ago, in April, the judge in that matter found that the jury's decision to double the compensatory award when calculating the punitive award was excessive. She then gave Trizetto the choice between having a new punitive damages trial, and all the risks and expenses that would go along with that, or a reduced \$285 million award, and they chose the reduced award.

One last large verdict that is interesting to note is the case *Motorola Solutions v. Hytera Communications Corp.* This jury verdict came out in March of 2020. It is a Northern District of Illinois matter, and the jury came back with a verdict of approximately \$764.6 million. It came after the district court had held that the DTSA applies for misappropriation that occurs outside the United States if the misappropriator is a U.S. citizen or entity, or an act in furtherance of the misappropriation occurred domestically. While *Motorola* was not the first case to recognize that the DTSA provides a right of action for foreign misappropriation, it appears to be the first substantial analysis of extraterritorial application of the DTSA. Using the U.S. Supreme Court's framework for analyzing these issues, the district court found a clear indication that Congress intended the DTSA to apply to foreign conduct.

So, what are the key takeaways of review of these cases? I think the first is that litigants have quickly adapted and added the DTSA claim to their trade secrets arsenal. I think that is clear just from looking at the numbers. The second is that there have been many jury verdicts that are in pretty staggering numbers of the hundreds of millions of dollars. So, you know, I think that it is safe to say juries are unafraid to charge trade secrets misappropriators with a large amount of money, and that should be getting, I think, folk's attention.

And then the final takeaway is based on that *Motorola* case. Extraterritorial application of the DTSA can carry significant consequences. A trade secrets owner may be able to sue an alleged misappropriator for trade secrets misappropriation that occurred entirely overseas as long as the owner can show that an act in furtherance of such misappropriation occurred in the United States. That could include even relatively limited activities in the U.S. such as attending trade shows. That could be enough to trigger extraterritorial application of the DTSA. So, I think both foreign companies and U.S. companies operating abroad need to be aware of the DTSA's potentially far-reaching scope.

Siegal: What about the second legislative goal of the notion of promoting uniformity in the law across the country? Mark, how is that going, five years in?

Temple: Well, John, at the time of enactment, 49 states and D.C. had statutes based upon the Uniform Trade Secrets Act, so we are starting to see some effort to

have consistency at the state level. However, the patchwork of application and interpretation still created an uncomfortable level of uncertainty for national employers. The DTSA is helping that effort for more consistent treatment and to understand why it is really important to take a look and note some of the differences between the UTSA and the DTSA. First, the DTSA is less specific than the UTSA regarding the proper means to obtain a trade secret. Second, as Carey mentioned, damages to be trebled under the DTSA as opposed to doubled UTSA. Third, although a preliminary injunction can occur under both, under the DTSA, the injunction cannot prevent someone from entering into an employment relationship, which is interesting in my field. Fourth, ex parte civil seizure is available under the DTSA in extraordinary circumstances, something we did not see under the UTSA. Finally, under the DTSA, attorney's fees can be awarded based upon what calls circumstantial evidence that the trade secrets litigation was in fact filed in bad faith. The UTSA doesn't have any reference to circumstantial evidence.

Siegal: So, Carey, are we actually seeing consistency across jurisdictions as courts draft and enforce DTSA claims?

Busen: You know, not as much as you would expect. The DTSA explicitly does not preempt state laws, so many if not most plaintiffs are bringing the DTSA claims in parallel to state law trade secrets claims. I think it is fairly unusual for someone to only bring a DTSA claim. As Mark had just mentioned, the UTSA had been enacted in most jurisdictions across the country, so each state was sort of modeled off the same statutes – which, again, you would think would make things more consistent, but that is just not what we're seeing. In the past, before the DTSA, when trade secrets were litigated, the courts were applying the state laws, and then now that we've transferred into a land where the DTSA exists, because of the similarities between the DTSA and the UTSA, courts are applying the DTSA consistent with past state precedent, which varies, of course, across jurisdictions. So these differences are exacerbated where a particular state enacted the UTSA with their own specific changes, thus the common-law precedent is based on varying versions of the UTSA.

In states with more significant differences between the DTSA and the state's statute, the DTSA has not yet overridden the state law. A stark example of the divergence of courts' findings involved the inevitable disclosure doctrine, which typically involves allegations that a former employee necessarily cannot perform their job functions with a new employer without disclosing the former employee's trade secrets information. After enactment, it was unclear whether the DTSA recognized the doctrine due to language stating that injunction is only available when the order does not prevent a person from entering into an employment relationship, and that conditions placed on such employment shall be based on evidence of threatened misappropriation and not merely on the information the person knows. However, the DTSA has been interpreted consistent with that jurisdiction's precedent; thus, some states – like California – reject it and have continued to, even post-enactment, while other states that have historically recognized it – like Illinois – continue to do so.

In a similar vein, New York has rejected avoided cost damages, which are available under the DTSA. New York's highest court has continued to reject those damages. Indeed, in the *Syntel* case I mentioned earlier, the jury was charged that avoided cost damages were available on the DTSA claim but not available on the state law misappropriation claim. So, I think we're going to need to continue to monitor cases going forward to see if there becomes more of a convergence on these issues.

Siegal: Yeah, I mean, in New York – where I am and where I practice – it is the only common-law state when it comes to law of trade secrets. The DTSA is actually probably going to lead to greater divergence between the law applied in federal court and the law applied in state court because we don't have that UTSA sort of grounding that the other states have. What about the third goal, Mark, to better address cross-state and foreign disputes, and what does a DTSA report card look like in regard to global trade secrets theft and enforcement?

Temple: Well, as referenced in some of the cases that Carey mentioned, the DTSA certainly has allowed for more enforcement against non-U.S. entities since the act applies to certain conduct occurring outside the United States. Litigants used the act to enforce their trade secrets that have been taken across our borders to other countries. The act provides for that cause of action where the defendant is a natural person – as the definition Carey read through, is a citizen of permanent residence in the United States – and it goes on with regard to organizations or, in the significant point on this is, an act in furtherance of the offense committed in the United States as the *Motorola* case mentioned. It has been interesting to see how courts are interpreting what is actually considered an act in furtherance of the offense; we are seeing courts with increasing frequency, John, take a liberal view of that extraterritorial application of the act for the benefit of American companies and trade secrets theft cases. That was true certainly in the *Motorola* case that Carey just mentioned.

While the courts' jurisdictional challenges have also come up in other areas as well, and we have seen in *Motorola* it was during trial when they started looking at damages and whether extraterritorial damages could be considered. We're also seeing it in other areas such as pre-answers – so very, very early in the case we are seeing those jurisdictional challenges. One example is what happened in a battery product case called *Inventus Power v. Shenzhen Ace Battery*. In that case, a Chinese company wanting to get into the battery pack market recruited a group of engineers employed by an American company who had been developing that particular battery technology. The engineers who left were not located in the United States, but instead lived, worked and were in fact recruited in China. The technology at issue was residing on servers located at the company's headquarters in Illinois and accessed and transferred from those servers to the new company in China. The competitor in that case argued in a motion to dismiss that the act did not extend to the conduct at issue because none of its business activities were located in the United States. The court, of course, looked at it and said, "Wait a minute – the in furtherance prong actually allows the theft at issue to be satisfied once the test, since the test is actually whether the intellectual property here was copied and stolen from the United

States servers.” The court also found that the in furtherance prong was satisfied because the products containing the stolen trade secrets, like the *Motorola* case, were in fact marketed at U.S. trade shows.

So there has been an extraterritorial expansion in many instances in many of these cases that we’re seeing, which is encouraging for the practitioners.

Siegal: Thanks, Mark. So that is a summary of five years looking backward. Looking forward Mark, where do you think all this is headed?

Temple: Well, John, I don’t think that it is going to slow down. I think the DTSA claims will in fact increase. We’ll certainly see more and more as people start to come back to work. We are in employment world are seeing more employee mobility as people are returning to their traditional workplaces. I think they’re reconsidering some of the prior job moves they were considering before the departure and are now starting to act on some of those job moves.

Siegal: What do you recommend to clients to, you know, deal with that prospect?

Temple: Well, one of the things that we’ve done and seen across the spectrum is the trade secrets auditor or trade secrets protection program. Now is an excellent time for companies to consider taking an inventory of where their trade secrets are and making sure that all the stakeholders in the organization are on the same page with regard to the identification of those trade secrets. Once that has taken place, it is a good idea now to understand exactly where those trade secrets are located and how they’re being stored. Are they on the servers? Are they in hard copy format? The basics: What are they, where are they? And then the question always is, has the company taken adequate measures to protect the trade secrets? Now is the time to look at all types of security mechanisms that are available critically with today’s technology that allows access tracking and policing through those channels.

Siegal: And Carey, looking forward in the trade secrets litigation world where you work, what do you see in the next five years, say, on the DTSA side?

Busen: Yeah, John, I think that we can start to expect a more fulsome body of law over the next five years; I think with ten years behind us, that will really show whether the DTSA has satisfied its goals and the intents. As I mentioned earlier, one particular issue we’ll be watching is whether courts will unify over the timing of litigants identifying trade secrets with reasonable particularity. And as I mentioned, there is a divergence across states, and hopefully that can converge with some DTSA guidance in the next five years.

Siegal: Great, alright, I know you’ll be watching, and I appreciate everyone joining us, we’ll see you on November 10.

Rubenking: Thank you, John, Mark and Carey. If you have any questions for John, Mark or Carey, their contact information is in the show notes. Please join us next time for episode three; Global Reach – Extraterritoriality and DTSA Enforcement Beyond

the USA. Partners Leif Sigmond and Tiffany Miao will discuss the reach of the Federal Defend Trade Secrets Act beyond the borders of the United States.

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