Published on *The National Law Review* https://natlawreview.com

Trade Secret Misappropriation Not Sufficiently Plead Where Defendant Possessed but did Not Threaten to Disclose Trade Secret Information in Southern District of New York Case

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Last year, the U.S. District Court for the Southern District of New York addressed an issue of first impression concerning what constitutes "misappropriation" under the Defend Trade Secrets Act (DTSA) in a decision potentially relevant to cases involving allegations of trade secret misappropriation under the DTSA against a former employee. This case is worthy of note for any trade secret practitioner and is an important reminder that when pleading alleged trade secret misappropriation, it is not only important to describe the trade secret with sufficient particularity, but also to sufficiently describe the alleged misappropriation so as to illustrate the alleged acquisition of the trade secret by improper means or disclosure of the trade secret without consent.

In *Zurich Am. Life Ins. Co. v. Nagel*, 20-cv-11091, 2021 U.S. Dist. LEXIS 89781 (S.D.N.Y. May 11, 2021), the plaintiff alleged that defendant, a former employee, forwarded confidential company materials to his personal email account shortly before his termination of employment and that, after he was terminated, took the electronic materials with him. The Court found that the plaintiff's allegations in the complaint failed to state a claim for trade secret misappropriation under the DTSA for two reasons. First, the Court found that plaintiff's description of the allegedly misappropriated material as "corporate governance documents, board resolutions, biographical affidavits containing sensitive personal information for [plaintiff's] senior executives, and financial reports," that, according to the complaint, a "competitor could use [] to unfairly compete with [plaintiff], divert its customers, and undercut its business," and that "the disclosure of personal and highly sensitive information of [plaintiff's] employees could compromise [plaintiff's] business reputation and the trust it has cultivated with its personnel," was insufficiently precise to demonstrate the existence of a trade secret under the DTSA. The Court specified that these "nebulous" categories of documents described in the complaint, without more, did not give rise to a plausible inference that the defendant emailed himself trade secret information.

While the court found that this first deficiency "conceivably might be cured through an amended pleading," another failing of the complaint was "fatal" to the DTSA claim. Specifically, the Court found that plaintiff did not sufficiently allege "misappropriation." Under the DTSA, misappropriation entails (1) acquiring a trade secret by improper means, or (2) disclosing or using the trade secret

without consent. Because defendant was authorized to acquire the material he allegedly took as part of his job, the Court found that he did not acquire the material by improper means. The Court then turned to a question of first impression: “does one ‘misappropriate’ a trade secret for purposes of the DTSA when one uses possession of the trade secret to extort the trade secret’s owner, without disclosing, using, or necessarily even accessing the contents of the trade secret?”

The court answered the question in the negative, finding that the DTSA requires not just any use of a trade secret, but a use that constitutes misappropriation under the statute. More specifically, the Court explained that the DTSA is designed to protect against the disclosure of the substance of the trade secret allegedly misappropriated, but in this case, where the defendant allegedly refused to return plaintiff’s property until certain consideration was paid – allegedly extorting his former employer – and thus threatened that he would only continue to possess the company property containing trade secret information rather than threatening to disclose the trade secret information if consideration was not paid, there was no “misappropriation” under the DTSA. The Court noted that its decision would likely have been different if the defendant had at least threatened to disclose plaintiff’s confidential information unless he received consideration, as that would have imperiled the trade secret. But, because the defendant merely threatened to keep the alleged trade secrets, without threatening to use or disclose them, the facts in the complaint did not give rise to a DTSA claim.

National Law Review, Volume XII, Number 25