United States District Court

District of Massachusetts

Notice of Electronic Filing

The following transaction was entered on 10/29/2020 at 1:09 PM EDT and filed on 10/29/2020

Case Name:	Neural Magic, Inc. v. Facebook, Inc. et al
Case Number:	1:20-cv-10444-DJC
Filer:	
Document Number:	88(No document attached)

Docket Text:

Judge Denise J. Casper: ELECTRONIC ORDER entered. D. [74]: Plaintiff Neural Magic, Inc. ("Neural Magic") filed this lawsuit against Defendants Facebook, Inc. and Dr. Aleksandar Zlateski ("Defendants"), asserting that Facebook and Zlateski have misappropriated trade secrets under the Massachusetts Uniform Trade Secrets Act ("MUTSA"), Mass. Gen. L. c. 93, §§ 42 *et seq.* (Count I) and the Defend Trade Secrets Act ("DTSA"), 18 U.S.C. § 1836 (Count II) and also asserts other state law claims. Defendants now move to dismiss several of the state law claims, specifically, the c. 93A claim (Count III), the unjust enrichment claim (Count VI) and, in part, the tortious interference claim (Count V) on the ground that such claims are preempted by the MUTSA. D. 74.

In consideration of a motion to dismiss under Fed. R. Civ. 12(b)(6), all well-pled facts in the complaint are entitled to an assumption of veracity and all reasonable inferences must be drawn in the Plaintiff's favor. Ruiz v. Bally Total Fitness Holing Corp., 496 F.3d 1, 5 (1st Cir. 2007). If a complaint, based on the well-pleaded factual allegations fails to allege content that allows the court to draw the reasonable inference that the defendant is liable based on a legally viable claim, it is subject to dismissal. Ashcroft v. Iqbal, 556 U.S. 662, 678 (2009).

Massachusetts adopted the MUTSA, its version of the Uniform Trade Secrets Act ("UTSA"), effective October 1, 2018. Mass. Gen. L. c. 93 §§ 42 *et seq.* Most states have adopted the UTSA in some form. Uniform Law Commission, Trade Secrets Act, https://www.uniformlaws.org/committees/community-home?CommunityKey=3a2538fb-e030-4e2d-a9e2-90373dc05792 (last visited Oct. 29, 2020). Defendants argue that the MUTSA preempts the Chapter 93A claim (Count III), unjust enrichment claim (Count VI) in full and its tortious interference claim (Count V) in part because these claims relate to the allegation that Zlateski stole and used its trade secrets. D. 75 at 7. Neural Magic contends, however, that the MUTSA only applies to trade secrets, and thus does not preempt their claims, which seek remedies not just for the misappropriation of trade secrets, but also for theft of confidential and proprietary information. D. 78 at 7-11.

By its express terms, the MUTSA does not preempt the claims of Neural Magic that Defendants now challenge. Instead, the MUTSA "supersede[s] any conflicting laws of the commonwealth providing civil remedies for the misappropriation of a trade secret." Mass. Gen. L. c. 93 § 42F(a). Moreover, the MUTSA also provides that it does "not affect other civil remedies to the extent that they are not based upon misappropriation of trade secret." Id at § 42F(b)(3). Apparently, no court in Massachusetts has addressed the scope of MUTSA preemption as it might pertain to the theft of confidential and proprietary information, whether it meets the statutory definition of trade secret or not, as Defendants contend it should. D. 75 at 10. In the absence of such guidance, both parties turn to the split among courts regarding the scope of preemption of the UTSA adopted in other states.

In applying similar statutory provisions, courts are split on the scope of preemption. Compare Mattel, Inc. v. MGA Entm't, Inc., 782 F. Supp. 2d 911, 987 (C.D Cal. 2011) (holdings claims based on misappropriation of information not rising to the level of trade secret are nevertheless preempted) and Digital Envoy, Inc. v. Google, Inc., 370 F. Supp. 2d 1025, 1035 (N.D. Cal. 2005) (deeming unfair competition and unjust enrichment claims preempted by the UTSA) with Orca Commc'ns Unlimited, LLC v. Noder, 236 Ariz. 180, 182 (2014) (holding that the plain language of statute was unambiguous and applying its terms "without resorting to other tools of statutory interpretation") and Stone Castle Fin., Inc. v. Friedman Billings, Ramsey & Co., 191 F. Supp. 2d 652, 656-59 (E.D. Va. 2002) (holding that a plain reading of the Virginia UTSA compelled a decision that claims based on information not determined to be a trade

secret were not preempted).

As Defendants stress, the majority view appears to be that the "preemption provision displaces any antecedent misappropriation-of-trade-secret claim and, further, any claim regarding theft or misuse of confidential proprietary, or otherwise secret information falling short of trade secret." Office Depot Inc. v. Impact Office Products LLC, 821 F. Supp. 2d 912, 918 (N.D. Ohio 2011) (internal citations and quotations omitted). Defendants argue that given that the MUTSA was adopted in Massachusetts after years of interpretation of the UTSA in other states, Massachusetts' adoption effectively incorporated the majority view because "where a legislature has enacted the same language previously used, courts presume 'it adopted the earlier judicial construction of that' language." D. 75 at 11 (citing Helsinn Healthcare S.A. v. Teva Pharm. USA, Inc., __ U.S. __, 139 S. Ct. 628, 633 (2019)).

In Helsinn, however, the judicial construction in question was unanimous. Id. (citing "settled" precedent). Moreover, Neural Magic does not point to any Massachusetts legislative history to suggest that the legislature intended to incorporate Defendants' view of preemption when it adopted the MUTSA. D. 78 at 6. Even when the Massachusetts legislature enacted the MUTSA, there was (and continues to be) a split of authority about whether the UTSA displaces all common law tort claims based upon misappropriation of confidential information, whether the information constitutes a statutorily defined trade secret. If the legislature seeks to preempt a cause of action, the legislative intent to do so must be clear. Roma, III, Ltd. v. Board of Appeals of Rockport, 478 Mass. 580, 588 (2018) (citations omitted). Absent a clear manifestation of legislative intent to displace a common-law cause of action, moreover, there is a presumption against such preemption. See Ajemian v. Yahoo!, Inc. 478 Mass. 169, 178 (2017) (citations omitted).

Defendants argue, however, that it is reasonable to infer legislative intent to preempt claims that do not fit the statutory definition of trade secrets because a majority of courts have applied the broader interpretation and Section 42G of the MUTSA states that the Sections 42 to 42F, which includes the preemption provision, "shall be applied and construed to effectuate [its] general purpose to make uniform the law with respect [to] trade secrets." Mass. Gen. L. c. 93 § 42G. There is some support for Defendants' view from some other UTSA states that have adopted a broader application of preemption to advance the UTSA's goal of promoting uniformity in trade secrets law. See BlueEarth Biofuels, LLC v. Hawaiian Elec. Co., 123 Haw. 314, 325 (2010). Those courts have reasoned that "[p]ermitting litigants in UTSA states to assert common-law claims for the misappropriation or misuse of confidential data would reduce the UTSA to just another basis for recovery and leave prior law effectively untouched." Id. While the MUTSA states a desire to create uniformity regarding trade secrets, however, "it says nothing about [creating uniformity] in confidential information generally." Noder, 236 Ariz. at 183.

Given that the MUTSA is silent about uniformity with respect to confidential information that may not constitute a trade secret, the text of Section 42F which limits preemption to civil remedies for the misappropriation of trade secrets, the split in authority on the scope of preemption of similar UTSA provisions and the lack of authority in Massachusetts, the Court does not conclude that MUTSA preemption applies to the state law claims that Defendants now challenge where these claims rely upon the alleged the theft of alleged confidential and information. See Cenveo Corp. v. Slater, No. 06-CV-2632, 2007 WL 527720, at *3 (E.D. Penn. Feb. 12, 2007) (finding that minority view that Trade Secret Act did not preempt common law tort claims was "better approach" "when it has yet to be determined whether the information at issue constitutes a trade secret" and preemption would leave plaintiff without a remedy); see also Brand Servs., LLC v. Irex Corp., 909 F.3d 151, 157-59 (5th Cir. 2018).

Additionally, given the express language of the MUTSA that preempts "civil remedies for the misappropriation of a trade secret," Mass. Gen. L. c. 93 § 42F(a), but expressly does "not affect other civil remedies to the extent that they are not based upon misappropriation of trade secret," Id at § 42F(b), the focus should be on the causes of action that give rise to such civil remedies, not the factual conduct that give rise to same. See, e.g., Nucor Corp. v. Bell, 482 F. Supp. 2d 714, 725 (D.S.C. 2007) (holding that to determine "whether a particular cause of action involves rights equivalent to those protected by the Trade Secrets Act, the elements of the cause of action should be compared, not the facts pled to prove them"); Gates Corporation v. CRP Industries, Inc., No. 16-cv-01145-KLM, 2017 WL 5714342, at *5 (D. Colo. Nov. 28, 2017) (holding that "a plaintiff may also bring claims that, although involving a trade secret misappropriation issue, include additional elements not necessary for a misappropriation claim under the CUTSA") (internal citations omitted). Such test applied here does not, as Defendants contend, "allow a party to raise multiple different claims based on the same trade secret misappropriation injury," BlueEarth Biofuels, LLC v. Haw. Elec. Co., 123 Haw. at 321, where, as discussed above, the challenged claims concern the alleged theft of confidential and proprietary information. As there is no dispute as to the requisite elements of each of these claims (the 93A claim, the unjust enrichment claim and tortious interference claim), the Court notes that all contain elements different than those required for a misappropriation of a trade secret claim, D. 78 at 8 and cases cited. That is, this analysis also supports the conclusion that the preemption that Defendants urges is not warranted here.

Having reached the conclusion above, the Court does not reach Neural Magic's further arguments against preemption, see D. 78 at 13.

To the extent that Defendants also seek to dismiss the unjust enrichment claim, arguing that Neural Magic has an adequate remedy at law, D. 75 at 16; D. 83 at 14-15, the Court agrees with Defendants as to this basis of dismissal for this claim. While it may not ultimately prevail on its other claims, "it is the availability of a remedy at law, not the viability of that remedy, that prohibits a claim for unjust enrichment." Tomasella v. Nestle USA, 364 F. Supp. 3d 26, 37 (D. Mass. 2019), aff'd, 962 F.3d 60, 84 (1st Cir. 2020) (concluding that the unjust enrichment claim was properly dismissed "because an adequate remedy at law was undoubtedly available to her through Chapter 93A" even where the 93A claim was also properly dismissed).

For the aforementioned reasons, the Court DENIES the motion to dismiss, D. 74, as to the 93A claim (Count III) and the tortious interference claim (Count V) and ALLOWS it as to the unjust enrichment claim (Count VI).

(Currie, Haley)

1:20-cv-10444-DJC Notice has been electronically mailed to:

Russell Beck rbeck@beckreed.com, ehahn@beckreed.com, hjoseph@beckreed.com, pastl@beckreed.com

Stephen D. Riden sriden@beckreed.com, pastl@beckreed.com

William J. Trach william.trach@lw.com, bj-trach-3344@ecf.pacerpro.com

Christopher W. Henry christopher.henry@lw.com, christopher-henry-5792@ecf.pacerpro.com, washington-dc-litigation-services-5378@ecf.pacerpro.com

Hannah Tso Joseph hjoseph@beckreed.com, pastl@beckreed.com

Patrick D. Curran patrickcurran@quinnemanuel.com, anastaciacates@quinnemanuel.com, patrick-curran-quinn-emanuel-urquhart-sullivan-llp-4901@ecf.pacerpro.com

Kaitlyn M. O'Connor kaitoconnor@quinnemanuel.com, anastaciacates@quinnemanuel.com, kait-oconnor-4648@ecf.pacerpro.com

Nathanial J. McPherson nathanial.mcpherson@lw.com, nathanial-mcpherson-0419@ecf.pacerpro.com

Steven Cherny stevencherny@quinnemanuel.com

Jillian E. Carson jcarson@beckreed.com

Jennifer L. Barry jennifer.barry@lw.com

Douglas E. Lumish doug.lumish@lw.com

1:20-cv-10444-DJC Notice will not be electronically mailed to: