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PROTECTING TRADE SECRETS? BEEFY 'DEFEND TRADE SECRETS ACT' TO THE RESCUE

> *"[T]here are only two types of companies: those that have been hacked and those that will be. And even they are converging into one category: companies that have been hacked and will be hacked again."*[1]

Trade secret misappropriation costs the U.S. economy about $300 billion each year.[2] While some say this estimate is overblown,[3] few question that robust trade secret protection is essential in light of cyber-spooks. The long-awaited Defend Trade Secrets Act (DTSA), signed into law May 11, 2016, creates a strong federal cause of action that unifies, beefs up, and streamlines trade secret law, misappropriation protections and litigation.

Pre-DTSA Landscape

Trade secrets law is not new. Rooted in early Roman law, U.S. courts began protecting trade secrets in the mid-19th Century.4 The American Law Institute (ALI) took the first crack at unifying trade secret law in 1939 in the Restatement (First) of Torts sections 757-59. Despite the Restatement (First)'s popularity, the Restatement (Second) removed the most well-established principles of trade secret law.[5]

By the 1970s, a growing chorus of commentators, practitioners, and industry observers began calling for a statutory solution. The National Conference of Commissions of Uniform State Laws answered in 1979 with the Uniform Trade Secrets Act (UTSA).

The UTSA "codif[ied] the basic principles of common law trade secret protection."[6] Forty-seven states and the District of Columbia adopted the UTSA, with modifications.[7] Given variation among the states, many started to call for federalization of trade secret protection.

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1 Robert S. Mueller III, FBI Director, Speech at the RSA Cyber Security Conference (Mar. 1, 2012).
2 Defend Trade Secrets Act of 2016, Senate Report from the Committee on the Judiciary, at 2 (May 7, 2016).
3 *See, e.g.*, David S. Levine & Sharon K. Sandeen, *Here Come the Trade Secret Trolls*, 71 Wash. & Lee L. Rev. 230, 238-243 (2015); Zoe Argento, *Killing the Golden Goose*, 16 Yale J. L. & Tech. 172, 198-99 (2014).
4 *See* Restatement (Third) of Unfair Competition § 39, cmt. *a* (1995); Catherine L. Fisk, *Working Knowledge: Trade Secrets, Restrictive Covenants in Employment, and the Rise of Corporate Intellectual Property*, 52 Hastings L.J. 441, 483-88 (2001); *see generally* A. Arthur Schiller, Trade Secrets and the Roman Law; The Actio Servi Corrupti, 30 Colum. L. Rev. 837 (1930).
5 UTSA, Prefatory Note, at 1 (1985); Restatement (First) of Torts § 757 (1939).
6 UTSA, Prefatory Note, at 1. After the UTSA's adoption, the ALI recognized trade secret protection in the Restatement (Third) of Unfair Competition §§ 39-45 (1995).
7 *See, e.g.*, Marina Lao, *Federalizing Trade Secrets Law in an Informational Economy*, 59 Ohio St. L.J. 1633, 1657 (1998); Uniform Law Commission, Legislative Fact Sheet - Trade Secrets Act.

"By 2016, legislators on both sides of the aisle recognized the need for a civil cause of action to protect U.S. trade secrets. The DTSA was Congress's answer."

Congress Makes a Federal Case of It

Congress first federalized trade secret law by criminalizing misappropriation in the Economic Espionage Act of 1996.[8] However, that attempt at criminalization apparently did not go far enough.[9] By 2016, legislators on both sides of the aisle recognized the need for a civil cause of action to protect U.S. trade secrets. The DTSA was Congress's answer.

The DTSA creates a unified standard for trade secret protection in the civil context, and it addresses several issues that implicate the strategic management of trade secrets. Here is a primer of what you need to know:

Whose law is it anyway? The DTSA *supplements* state trade secret law. The DTSA intentionally preserves federalism and eliminates concerns that federalization will stunt development of trade secret law. Because states remain free to "grant[] broader rights than are available under federal law," however, the law may run the risk of becoming a "one-way ratchet" in which trade secrets are given too much protection.[10] Courts and legislators should resist the temptation to afford trade secrecy overbroad protection and remain mindful of the interplay between federal and state laws.[11] Otherwise, we may see a new breed of litigation goblin: the "trade secret troll."[12]

Federal consistency. The DTSA is modeled after the UTSA. Both similarly define "trade secret" and "misappropriation" and reject the "continuous use" requirement of the Restatement (First). The DTSA and UTSA contain parallel remedial provisions by permitting injunctive relief, recovery for actual loss, disgorgement of the defendant's bounties, reasonable royalty damages, punitive damages, and attorney's fees.[13]

Carpe seize 'em. The most striking (and controversial) distinction between the DTSA and UTSA is the DTSA's *ex parte* civil seizure procedure. This procedure permits the court to "issue an order providing for the seizure of property necessary to prevent the propagation or dissemination of the trade secret that is the subject of the action."[14] The seizure procedure is a temporary restraining order "with teeth," allowing trade secret owners to take immediate action to mitigate potential damage caused by trade secret misappropriation.

The DTSA's seizure procedure, however, carries potential for abuse and raises key constitutional questions. The court's seizure order, for example, may abridge the respondent's Fifth Amendment privilege against self-incrimination, particularly in light of cases that involve "breach of confidentiality" by individuals and the apparent circuit split regarding application of the collective entity doctrine in cases involving former

8 18 U.S.C. §§ 1831-39.

9 *See, e.g.*, Report of the House of Representatives Committee on the Judiciary, Defend Trade Secrets Act of 2016, at 4 (April 26, 2016).

10 Mark P. McKenna, *Trademark's Faux Federalism*, *in* Intellectual Property and the Common Law 288, 291(Shyamkrishna Balganesh ed., 2013); Christopher Seaman, *The Case Against Federalizing Trade Secrecy*, 101 Va. L. Rev. 317, 383 (2015).

11 *See generally* Levine & Sandeen, 71 Wash. & Lee. L. Rev. at 230 (2015).

12 *Id.* at 234.

13 *See* 18 U.S.C.A. § 1836(b)(3); UTSA § 3.

14 *See* 18 U.S.C.A. § 1836(b)(2).

"The DTSA creates whistleblower immunity. Whistleblowing has been steadily increasing worldwide since the 2007-2008 financial crisis, accounting for more than 40 percent of cases in which fraud is discovered. However, it is often met with punishment, not praise."

employees.[15] Further, the seizure order may trigger search-and-seizure provisions of the Fourth Amendment.[16]

Shielding the messenger. The DTSA creates whistleblower immunity. Whistleblowing has been steadily increasing worldwide since the 2007-2008 financial crisis, accounting for more than 40 percent of cases in which fraud is discovered. However, it is often met with punishment, not praise.[17] In the age of the whistleblower, many—including those in Congress—recognized the need for whistleblower protection in the trade secret context.

The DTSA bolsters the 2010 Dodd-Frank financial reform act and dozens of federal whistleblower-protection laws by protecting whistleblowers from liability for a disclosure that (1) is made in confidence to a government official or attorney "solely for the purpose of reporting or investigating a suspected violation of law" or (2) is made in a legal pleading filed under seal.[18] In addition, employers must provide notice of the immunity in "any agreement with an employee that governs the use of a trade secret or other confidential information."[19]

Jurisdictional limits. Unlike patents and copyrights, Congress's authority to legislate trade secrets stems from the Commerce Clause.[20] To that end, a DTSA claim must involve a trade secret "related to a product or service used in, or intended for use in, interstate or foreign commerce."[21] The jurisdiction limitation presents novel issues in trade secret law, such as the DTSA's applicability to negative know-how trade secrets. [22]

Disclosure may not be so inevitable. The "inevitable disclosure doctrine" allows a plaintiff to prove misappropriation by "demonstrating that the defendant's new employment will inevitably lead him to rely on the plaintiff's trade secrets."[23] The doctrine, which is unevenly applied in the states,[24] permits employers to block employees from taking jobs with competitors

15 *See Heddon v. State*, 786 So. 2d 1262, 1263-64 (Fla. Dist. Ct. App. 2001); *compare In re Three Grand Jury Subpoenas Duces Tecum*, 191 F.3d 173, 179 (2d Cir. 1999) *with In re Grand Jury Subpoena*, 957 F.2d 807, 812 (11th Cir. 1992) *and In re Sealed Case*, 950 F.2d 736, 740 (D.C. Cir. 1991); *see also* Levine & Sandeen, 71 Wash. & Lee L. Rev. at 256. The Fifth Amendment's reach in the context of corporate entities is limited, *Braswell v. United States*, 487 U.S. 99, 109-10 (1988), but evolving case law illustrates that that may not always be the case. *See, e.g.*, *Citizens United v. FEC*, 558 U.S. 310, 465 (2010) and *Burwell v. Hobby Lobby Stores, Inc.*, 134 S. Ct. 2751 (2014).

16 Professors Levine and Sandeen observe that the seizure procedure is akin to a "civil search" or "Anton Piller" order, which have not been scrutinized under Fourth Amendment principles. *See* Levine & Sandeen, 71 Wash. & Lee L. Rev. at 256; *Anton Piller KG v. Mfg. Processes Ltd.*, 93 R.P.C. 719 (1976) (Eng).

17 The Economist, "The Age of the Whistleblower," (Dec. 5, 2015); Association of Certified Fraud Examiners, *Report to the Nations on Occupational Fraud and Abuse*, at 1 (2014).

18 18 U.S.C.A. § 1833(b)(1).

19 18 U.S.C.A. § 1833(b)(3)(A).

20 *See generally* Lao, 59 Ohio St. L.J. at 1686-1691.

21 18 U.S.C.A. § 1836(b)(1).

22 *See Nat'l Fed. of Indep. Bus. v. Sebelius*, 132 S. Ct. 2566, 2587 (2012) (limiting Congress' authority to regulate "inaction [in] commerce."); *see* Lao, 59 Ohio St. L.J. at 1658-59. Negative know-how is "information about perceived mistakes and shortcomings that one avoids to create something new, or that one modifies into something different and improved." Charles Tait Graves, *The Law of Negative Knowledge: A Critique*, 15 Tex. Intell. Prop. L.J. 387, 391-94 (2007).

23 *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262, 1269 (7th Cir. 1995).

24 *Compare, e.g., Cardinal Freight Carriers, Inc. v. J.B. Hunt Transp. Svcs.*, 987 S.W.2d 642 (Ark. 1999) *with Whyte v. Schlage Lock Co.*, 101 Cal. App. 4th 1443, 1463 (2002).

on the presumption the employee will inevitably disclose trade secrets. The DTSA, however, scraps this "natural" disclosure doctrine by precluding parties from relying on the inevitable-disclosure inference when seeking an injunction.[25]

Form and substance simplified. Federalizing trade secrets offers procedural and substantive advantages, including (1) achieving a uniform, minimum standard for trade secret protection; (2) promoting predictability by avoiding complex choice-of-law issues; (3) nationwide service of process and (4) broader jurisdictional reach over the parties.[26]

"We may be able to expect clarification from the Supreme Court in the near future, however, as Sequenom filed a petition for a writ of certiorari on March 21, 2016, asking the Court to clarify § 101 doctrine."

Conclusion

A robust regime to protect trade secrets has never been more important. However, legislation and litigation are not enough. In a global economy where international crime syndicates engage in economic cyber espionage, diplomacy plays a crucial role. This triad of legislation, litigation, and diplomacy is required to preserve America's status as the most dynamic and innovative economy in the world. The DTSA is a major step in the right direction.

25 18 U.S.C.A § 1836(b)(3)(A)(i)-(ii).

26 18 U.S.C.A. § 1836(a)(1); Fed. R. Civ. P. 4(k)(2), 45(b)(2); *Touchcom, Inc. v. Bereskin & Parr*, 574 F.3d 1403, 1414 (Fed. Cir. 2009); *Mwani v. Bin Ladin*, 417 F.3d 1, 11-14 (D.C. Cir. 2005); Lao, 59 Ohio St. L.J. at 1666-1670.