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## Symposium Keynote: The DTSA and the New Secrecy Ecology

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SYMPOSIUM KEYNOTE

# **The DTSA and the New Secrecy Ecology**

*By Orly Lobel\**

ABSTRACT

The Defend Trade Secrets Act (“DTSA”), which passed in May 2016, amends the Economic Espionage Act (“EEA”), a 1996 federal statute that criminalizes trade secret misappropriation. The EEA has been amended several times in the past five years to increase penalties for violations and expand the available causes of action, the definition of a trade secret, and the types of behaviors that are deemed illegal. The creation of a federal civil cause of action is a further expansion of the secrecy ecology, and the DTSA includes several provisions that broaden the reach of trade secrets and their protection. This article raises questions about the expansive trajectory of trade secret law and its relationship to entrepreneurship, information flow, and job mobility. Lobel argues that an ecosystem that supports innovation must balance secrecy with a culture of openness and exchanges of knowledge.

## I. INTRODUCTION

The Defend Trade Secrets Act (“DTSA”) created a federal civil cause of action against the misappropriation of trade secrets for the first time in the nation’s history. The DTSA was introduced by Senator Orrin G. Hatch on July 29, 2015,<sup>1</sup> and passed with little debate or controversy in both the House and Senate.<sup>2</sup> On May 11, 2016, President Obama signed the bill into law,<sup>3</sup> which became effective immediately. However, the DTSA is not without risk. This article discusses the potential perils of the DTSA and the expansion of trade secret protection. In particular, it highlights the ways the DTSA may be used for anti-competitive purposes, and how the DTSA may have a negative impact on access to knowledge, collaboration, and talent mobility.

The first section describes the ways in which the DTSA expands the protections that have traditionally been in the province of the states. The second section describes how this expansion should be understood as part of an already recently rebuffed federal secrecy ecology, especially in relation to the rise in criminal prosecutorial activity under the Economic Espionage Act of 1996 (“EEA”). The section also explains how traditionally trade secret law was treated with caution because of its ambiguous policy effects. The third section analyzes these recent developments from an innovation policy perspective, and highlights the potential risks of over-protection of valuable knowledge and human capital. In particular, the section considers whether the DTSA’s language adopts the controversial doctrine of inevitable disclosure and explains why the doctrine can have harmful effects on innovation.

## II. AN EXPANSION ON ALL FRONTS

The DTSA established federal subject matter jurisdiction for the theft of trade secrets, becoming “the most significant expansion of federal law in intellectual property since the Lanham Act in 1946.”<sup>4</sup> The DTSA expands the existing trade secrecy ecology in several ways. First, rather than preempting state law, the DTSA adds a federal cause of action.<sup>5</sup> Second, the DTSA defines trade secrets and what constitutes misappropriation more expansively.<sup>6</sup> Third, the DTSA includes unprecedentedly strong remedies.<sup>7</sup>

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\* This symposium article is based on Professor Orly Lobel’s keynote presentation at the March 10, 2017 symposium entitled “Implementing and Interpreting the Defend Trade Secrets Act of 2016,” hosted by the University of Missouri School of Law’s Center for Intellectual Property and Entrepreneurship and the School’s Business, Entrepreneurship & Tax Law Review.

1. Defend Trade Secrets Act of 2016, S. 1890, 114th Cong. (2016) (enacted).

2. Gregory Korte, *Obama Signs Trade Secrets Bill, Allowing Companies to Sue*, USA TODAY (May 11, 2016, 4:29 PM), <https://www.usatoday.com/story/news/politics/2016/05/11/obama-signs-trade-secrets-bill-allowing-companies-sue/84244258/>.

3. *Id.*

4. Eric Goldman et al., *Professors’ Letter in Opposition to the Defend Trade Secrets Act of 2015* (S. 1890, H.R. 3326), CYBERLAW.STANFORD.EDU 1 (Nov. 17, 2015), <https://cyberlaw.stanford.edu/files/blogs/2015%20Professors%20Letter%20in%20Opposition%20to%20DTSA%20FINAL.pdf>.

5. Bret A. Cohen et al., *Explaining the Defend Trade Secrets Act*, AM. B. ASS’N (Sept. 2016), [https://www.americanbar.org/publications/blt/2016/09/03\\_cohen.html](https://www.americanbar.org/publications/blt/2016/09/03_cohen.html).

6. *Id.*

7. *Id.*

The DTSA expanded the trade secret ecology by amending the EEA to include a federal civil cause of action for trade secret misappropriation.<sup>8</sup> Traditionally, trade secret law has been primarily a creature of state law. Thus, before the enactment of the DTSA, absent diversity jurisdiction, or an independent federal cause of action, owners of misappropriated trade secrets were limited to seeking remedies in state courts.<sup>9</sup> Prior to the enactment of the DTSA, a relatively uniform system of trade secret law existed, as the vast majority of states had adopted the Uniform Trade Secrets Act (“UTSA”),<sup>10</sup> while a few states continued to rely on common law.<sup>11</sup> In 1996, Congress enacted the EEA, which established criminal penalties for theft of trade secrets, but did not yet create a federal civil cause of action.<sup>12</sup> The DTSA amended the EEA to create a private cause of action for owners, both individuals and corporations of misappropriated trade secrets.<sup>13</sup> The amendment does not preempt existing state trade secret law, and thereby allows the owner of a misappropriated trade secret to file under both federal and state law.<sup>14</sup> Now, owners of trade secrets can bring civil actions in federal court as long as there has been trade secret misappropriation “related to product[s] or service[s] used in, or intended for use in, interstate or foreign commerce.”<sup>15</sup>

The DTSA includes very broad definitions of the terms “trade secret” and “misappropriation.” Trade secrets are defined as “all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing.”<sup>16</sup> This broad definition of a “trade secret” allows companies to file suits against the misappropriation of nearly any type of knowledge, as long as the company can show the knowledge was secret, and reasonable measures were taken to maintain its secrecy. The DTSA also broadly defines “misappropriation” as an “acquisition of a trade secret of another by a person who knows or has reason to know the trade secret was acquired by improper means . . . or disclosure or use of a trade secret of another without express or implied consent by a person” under certain conditions.<sup>17</sup>

The remedies available under the DTSA are equally expansive. They include injunctive relief, compensatory damages, and awarding of attorney fees.<sup>18</sup> Where the trade secret is “willfully and maliciously misappropriated” a court may award exemplary damages double the damage amount already awarded along with attorney’s fees where the misappropriation or claim of misappropriation was in bad

8. Defend Trade Secrets Act, 18 U.S.C.A. § 1836 (West 2016).

9. Cohen, *supra* note 5.

10. UNIF. TRADE SECRETS ACT, 14 U.L.A. 437 (1985).

11. *See* RESTATEMENT (FIRST) OF TORTS §§757-758 (AM. LAW INST. 1939); *see also* RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 (AM. LAW INST. 1995). In addition, several states provide criminal statutes for theft of trade secrets. CAL. PENAL CODE § 499c (West 2011); TEX. PENAL CODE ANN. § 31.05 (West 1993); N.J. STAT. ANN. § 56:15-1 (West 2012); N.Y. PENAL LAW § 165.07 (McKinney 1965).

12. Economic Espionage Act, 18 U.S.C.A. § 1831 (West 2013).

13. *Id.*

14. Cohen, *supra* note 5.

15. 18 U.S.C.A. § 1836(b) (West 2016).

16. Cohen, *supra* note 5.

17. 18 U.S.C.A. § 1839(5).

18. *Id.* § 1836(b)(3).

faith.<sup>19</sup> Furthermore, under “extraordinary circumstances,” a court can grant an *ex parte* seizure order, which trade secret owners can apply for in order to prevent the dissemination of a trade secret.<sup>20</sup> Before granting the seizure, courts must find that (1) a temporary restraining order or another form of equitable relief is inadequate, and (2) that “immediate and irreparable injury will occur if the seizure is not ordered.”<sup>21</sup> Again, this is an expansion upon previously existing state trade secret laws where *ex parte* seizures are unavailable and as will be discussed further in the third section, the remedy may negatively impact smaller and new companies in disputes against incumbents.

### III. MARKET SECRECY AS A GOVERNMENT FRONTIER

The DTSA should be understood as part of a larger effort to curtail the loss of proprietary information in current markets. The United States has been leading a global campaign to strengthen trade secrecy laws and enforcement.<sup>22</sup> The U.S. Trade Office in the past decade has strongly critiqued countries, and even the European Union, for failing to “have robust systems for protecting trade secrets, including deterrent penalties for criminal trade secret theft.”<sup>23</sup> Not coincidentally, in May 2016, the same month the DTSA was enacted, the EU passed a new directive “on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use, and disclosure.”<sup>24</sup> On the domestic front, the EEA was amended twice within the last few years to increase penalties,<sup>25</sup> to expand the scope of the statute, and the definition of misappropriation.<sup>26</sup> The EEA expanded the definition of a “trade secret” to include not only “products,” but also information used in “services” involving interstate commerce.<sup>27</sup>

The effort to restrict trade secret misappropriation is also evident in the recent increase of prosecutorial activity and educational efforts. Prosecutorial activity under the EEA has risen significantly. In the first five years of its enactment, there were 11 prosecutions under the EEA.<sup>28</sup> In the past decade, the number of

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19. *Id.* § (b)(3)(C).

20. *Id.* § (b)(2)(A).

21. *Id.*

22. See Ambassador Ronald Kirk, *2012 Special 301 Report 17*, OFF. OF THE U.S. TRADE REPRESENTATIVE (Apr. 2012), [https://ustr.gov/sites/default/files/2012%20Special%20301%20Report\\_0.pdf](https://ustr.gov/sites/default/files/2012%20Special%20301%20Report_0.pdf).

23. *Id.* at 17.

24. *Trade Secrets*, EUR. COMMISSION, [http://ec.europa.eu/growth/industry/intellectual-property/trade-secrets\\_en](http://ec.europa.eu/growth/industry/intellectual-property/trade-secrets_en) (last visited Nov. 26, 2017).

25. Foreign and Economic Espionage Penalty Enhancement Act of 2012, H.R. 6029, 112th Cong. (2013) (enacted) (amending §§ 1831 and 1832 to increase the maximum penalties).

26. Theft of Trade Secrets Clarification Act of 2012, Pub. L. No. 112-236, 126 Stat. 1627 (amending 18 U.S.C. § 1832(a)) (changing “or included in a product that is produced for or placed in [foreign commerce]” to “a product or service used in or *intended for use* in [interstate or foreign commerce]”) (emphasis added).

27. *Id.*

28. Derek Mason et al., *The Economic Espionage Act: Federal Protection for Corporate Trade Secrets*, 16 THE COMPUTER LAW 14 (1999); see also Robin L. Kuntz, *How Not to Catch A Thief: Why the Economic Espionage Act Fails to Protect American Trade Secrets*, 28 BERKELEY TECH. L. J. 901, 908-09 (2013) (describing cases prior to 2009 as “unicorn sightings”).

prosecutions has increased dramatically to several hundreds of cases.<sup>29</sup> In addition to increasing the amount of prosecutions, governmental educational efforts have spread awareness on the importance of preventing and reporting trade secret theft.<sup>30</sup> The Department of Justice published a report about trade secret prosecutions,<sup>31</sup> as did the Office of the National Counterintelligence Executive,<sup>32</sup> the Congressional Research Service,<sup>33</sup> and the U.S. Defense Security Service.<sup>34</sup> In 2013, the U.S. Departments of Commerce, Defense, Homeland Security, Justice, State, Treasury, the Office of the Director of National Intelligence, and the Office of the United States Trade Representative announced a joint strategic plan to mitigate trade secret theft.<sup>35</sup> As Rochelle Dreyfuss and I have argued in a previous article, the increased criminal prosecution has been part of an overall rising secrecy focus, and the passage of a federal civil cause of action should be understood to be part of this ecology as well.<sup>36</sup>

Dreyfuss and I have shown that these developments are a dramatic break with the past.<sup>37</sup> Federal law has always regulated patents, copyright, and trademark, but trade secrets have traditionally been “strictly the province of the states.”<sup>38</sup> In the past, the common understanding was that trade secrecy law should be limited because its effects are “profoundly ambiguous.”<sup>39</sup>

On the one hand, trade secrecy acts as an incentive to innovate (and a complement to patent protection); it is cheaper, can last longer, and covers advances that are not developed enough or sufficiently inventive to qualify for patents. But trade secrecy protection can also act as a substitute for patents. The more it reduces the risk of loss, the greater the temptation to

29. See Mark L. Krotoski, *Common Issues and Challenges in Prosecuting Trade Secret and Economic Espionage Act Cases*, U.S. DEP’T OF JUST. 1, 7 (Nov. 2009), <http://www.justice.gov/sites/default/files/usao/legacy/2009/12/10/usab5705.pdf>; see also Peter J. Toren, *A Look at 16 Years of EEA Prosecutions*, LAW360 (Sept. 19, 2012, 12:18 PM), <http://www.law360.com/articles/378560/a-look-at-16-years-of-eea-prosecutions>. According to an administration report, from 2009-2013, the FBI was involved in 20 cases—nearly double the total of the first five years. See *Administration Strategy on Mitigating the Theft of U.S. Trade Secrets*, U.S. DEP’T OF JUST. 1, 7 (Feb. 2013), <https://www.justice.gov/criminal-ccips/file/938321/download> [hereinafter *Administration Strategy Report*].

30. See *Administration Strategy Report*, *supra* note 29, at 12.

31. See Evan Williams, *Border Searches In Trade Secret and Other Cases*, U.S. DEP’T OF JUST. 52, 53 (Nov. 2009), <http://www.justice.gov/sites/default/files/usao/legacy/2009/12/10/usab5705.pdf> (including articles on issues arising in the prosecution of EEA cases, common defenses, parallel proceedings, use of electronic evidence, and sentencing); see also H. Marshall Jarrett et al., *Prosecuting Intellectual Property Crimes Manual*, U.S. DEP’T OF JUST., [http://www.justice.gov/sites/default/files/criminal-ccips/legacy/2015/03/26/prosecuting\\_ip\\_crimes\\_manual\\_2013.pdf](http://www.justice.gov/sites/default/files/criminal-ccips/legacy/2015/03/26/prosecuting_ip_crimes_manual_2013.pdf) (last visited Nov. 26, 2017).

32. *Foreign Spies Stealing US Economic Secrets in Cyberspace: Report to Congress on Foreign Economic Collection of Industrial Espionage 2009-2011*, OFF. OF THE NAT’L COUNTERINTELLIGENCE EXECUTIVE (Oct. 2011), <http://nsarchive.gwu.edu/NSAEBB/NSAEBB424/docs/Cyber-055.pdf> [hereinafter ONCIX Report].

33. Charles Doyle, *Stealing Trade Secrets and Economic Espionage: An Overview of the Economic Espionage Act*, CONG. RES. SERV. (Aug. 19, 2016), <https://www.fas.org/sgp/crs/secracy/R42681.pdf>.

34. *Targeting U.S. Technologies: A Trend Analysis of Reporting from Defense Industry*, DEF. SECURITY SERV., <http://www.dss.mil/documents/ci/2012-unclass-trends.pdf> (last visited Nov. 26, 2017).

35. *Administration Strategy Report*, *supra* note 29, at 2.

36. Rochelle Dreyfuss & Orly Lobel, *Economic Espionage as Reality or Rhetoric: Equating Trade Secrecy with National Security*, 20 LEWIS & CLARK L. REV. 419, 446 (2016).

37. *Id.* at 423.

38. *Id.*

39. *Id.* at 424-25.

rely on trade secrets instead of patents. Since trade secrecy does not require disclosure of the technical details of inventions, over-zealous trade secrecy protection can chill innovation, reduce competition, impede entrepreneurship, and interfere with the government's ability to regulate for safety, health, and environmental concerns.<sup>40</sup>

Thus, trade secret laws have always been approached cautiously, with the understanding that defending trade secrets requires a very delicate balance, lest such protections do more harm than good. The effect of the recent trends in strengthening trade secret laws, in particular, the passage of the DTSA, must now be evaluated in relation to the continuing goal of market innovation, including entrepreneurship, the flow of knowledge, and job mobility.

#### IV. POTENTIAL PERILS OF THE DEFEND TRADE SECRETS ACT

##### A. Trade Secrecy and Innovation Policy

In 2015, a group of law professors submitted a letter to Congress in opposition to the DTSA.<sup>41</sup> The opposition sprung from the DTSA's broad scope and risk of increasing the duration and cost of litigation, harming new businesses and innovators due to the *ex parte* seizure remedy, and the risk that, perversely, the DTSA would result in less rather than the more uniformity.<sup>42</sup> In addition, the group was concerned that the Act might recognize the controversial doctrine of inevitable disclosure, which prevents former employees from accepting new jobs with competitors.<sup>43</sup> This last concern will be the focus of the discussion below.

Almost by definition, intellectual property ("IP") law restricts knowledge and information from being shared.<sup>44</sup> IP laws, therefore, are always about striking a delicate balance. The laws establish an incentive system to encourage innovation and risk-taking.<sup>45</sup> At the same time, the enclosure of knowledge must be limited in time and scope to allow competitors and the next generation of innovators to build upon previous innovation. From an innovation policy perspective, the question is therefore not how much or how little the DTSA protects secrets in abstract absolute terms, but what line drawing best supports the pace of technological development, economic growth, and progress in the arts and sciences. Ultimately, one must ask whether a highly interlocking set of protections against trade secrecy leakage will fuel, or conversely, erect barriers to innovation and social welfare. One must remember that, paradoxically, increased efforts to protect confidential information

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40. *Id.* at 425.

41. Brook K. Baker et al., *Professors' Letter in Opposition to the "Defend Trade Secrets Act of 2014"* (S. 226) and the *"Trade Secrets Protection Act of 2014"* (H.R. 5233), CYBERLAW.STANFORD.EDU 1 (Aug. 26, 2014), <http://cyberlaw.stanford.edu/files/blogs/FINAL%20Professors%27%20Letter%20Opposing%20Trade%20Secret%20Legislation.pdf>. Full disclosure: I was part of the Law Professor's Letter in Opposition to the DTSA.

42. *Id.* at 2.

43. *Id.* at 5.

44. Orly Lobel, *The New Cognitive Property: Human Capital Law and The Reach of Intellectual Property*, 93 TEX. L. REV. 789, 791 (2015).

45. *Id.* at 796.

can hinder the production of such information and harm the innovative capabilities of the economy.

Notably, the risk of expanding trade secrecy too broadly also relates to global politics and the willingness of the United States to cooperate with other countries in the joint interest of scientific and technological progress. Universities and private companies may become fearful of individuals originating from outside the United States coming in to deplete the talent pool, creating virtual national walls which prevent fruitful exchange. As Dreyfuss and I have argued, the recent government reports about the rising threat of trade secrecy loss include repeated referents to “Chinese actors [as] the world’s most active and persistent perpetrators,”<sup>46</sup> and to “the many Russian immigrants with advanced technical skills who work for leading U.S. companies.”<sup>47</sup> The government’s educational material under the EEA frames the protection of trade secrets as a national security issue by routinely focusing on China and Russia as potential suspects and threats.<sup>48</sup> Dreyfuss and I conclude “the argument for greater protection appears to derive at least some of its power from xenophobia.”<sup>49</sup> The argument is not that American businesses do not have a legitimate interest in protecting their trade secrets. Rather, one must understand that any trade secrecy regime has trade-offs within itself: one must be cautious that the benefits of enhanced protections, warnings, monitoring, litigation, prosecution, and enforcement are not outweighed by the costs of chilling valuable innovation, exchanges, and collaboration.

Given their expansive, open-ended definition, trade secrets are the broadest type of intellectual property.<sup>50</sup> Because of their “do-it-yourself” nature, which does not require application or registration, trade secrets do not come with a disclosure or enablement requirement like patent law.<sup>51</sup> Also, their duration is potentially the longest: as long as they remain secret, the protection continues.<sup>52</sup> In other words, trade secrets can include nearly any type of information and remain a secret forever. On the other hand, trade secrets have always been considered a weak form of protection. In 1974, in *Kewanee Oil Co. v. Bicron Corp.*, the Supreme Court upheld a state trade secrecy law against a preemption challenge by the federal patent act.<sup>53</sup> The Court reasoned that trade secret law would not take knowledge out of the public domain because trade secrets are weak forms of protection and, when possible, companies would opt to patent their inventions instead.<sup>54</sup> The Court stated that trade secrets are so vulnerable to discovery that “[t]he possibility that an inventor who believes his invention meets the standards of patentability will sit back, [and] rely on trade secret law . . . is remote indeed.”<sup>55</sup> What was true in 1974 no longer appears

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46. ONCIX Report, *supra* note 32, at i.

47. *Id.* at 8.

48. Dreyfuss & Lobel, *supra* note 36, at 438.

49. *Id.* at 426.

50. *What is a Trade Secret?*, WORLD INTELL. PROP. ORG., [http://www.wipo.int/sme/en/ip\\_business/trade\\_secrets/trade\\_secrets.htm](http://www.wipo.int/sme/en/ip_business/trade_secrets/trade_secrets.htm) (last visited Nov. 26, 2017).

51. *Patents or Trade Secrets?*, WORLD INTELL. PROP. ORG., [http://www.wipo.int/sme/en/ip\\_business/trade\\_secrets/patent\\_trade.htm](http://www.wipo.int/sme/en/ip_business/trade_secrets/patent_trade.htm) (last visited Nov. 26, 2017).

52. *Id.*

53. *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974).

54. *Id.* at 484-85.

55. *Id.* at 490.



to be true today. Current trade secrecy protection often acts as a substitute for patents.<sup>56</sup>

The stronger the protection, the greater the temptation to rely on trade secret law rather than patent law.<sup>57</sup> Both the strengthening of trade secret law and the uncertainty about patent eligibility of certain biotechnologies, business processes, and software inventions may lead today's firms to rely more heavily on trade secret laws.<sup>58</sup> This raises a red flag: since trade secret laws do not require disclosure of the technical details of an invention, and protections are now strong both on the civil and criminal side, the traditional balance struck in intellectual property law may be disrupted.

The disruption of this delicate balance brings new risks. The new secrecy ecology, including the broad reach and expansive scope of the DTSA, can alter innovation environments in ways that chill scientific and technological progress. Because they are secret in nature, empirical research on trade secrets has been inherently difficult to conduct. Therefore, it is difficult to study the effects of recent policy changes on private innovation, and any reform must proceed with caution. And yet, as is discussed in the following section, many recent empirical studies provide indications of these risks, highlighting the effects of diminishing job mobility on economic growth, entrepreneurship, and the flow of knowledge.

### B. Talent Mobility and the Inevitable Disclosure Doctrine

Trade secret law has a tripolar identity, embodying characteristics of statutory, tort, and contract law. It is a pillar of intellectual property, a type of tort of unfair business practices, and a relational contractual moderator. In effect, trade secret laws regulate the relationship between employers and employees. As Professor Dennis Crouch of the University of Missouri School of Law stated, because trade secrecy disputes most commonly involve former employees, the DTSA becomes "a shoe horn for contract and employment law claims."<sup>59</sup> The misappropriation component becomes a question of interpreting the duties that shaped the contractual relationship.

Because of the centrality of intellectual property and human capital in today's knowledge-centered economy, employers unsurprisingly attempt to protect their secrets and limit the movement of their highly skilled workers to competitors.<sup>60</sup> Both in civil litigation and criminal prosecution, the majority of cases have involved disputes between employers and their current or former employees.<sup>61</sup> Trade secret disputes have expanded to new subject matters and modes of infringement.<sup>62</sup> For example, when trade secret law encompasses client lists, pricing information,

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56. Orly Lobel, *Filing for a Patent Versus Keeping Your Invention a Trade Secret*, HARV. BUS. REV. (Nov. 21, 2013), <https://hbr.org/2013/11/filing-for-a-patent-versus-keeping-your-invention-a-trade-secret>.

57. *Id.*

58. *Id.*

59. Dennis Crouch, *DTSA as a Shoe Horn for Contract and Employment Law Claims*, PATENTLYO (Apr. 28, 2016), <https://patentlyo.com/patent/2016/04/contract-employment-claims.html>.

60. See Office of Economic Policy, *Non-compete Contracts: Economic Effects and Policy Implications*, U.S. DEP'T OF TREASURY 1, 3 (Mar. 2016), <https://www.treasury.gov/resource-center/economic-policy/Documents/UST%20Non-competes%20Report.pdf>.

61. Dreyfuss & Lobel, *supra* note 36, at 461.

62. *Id.* at 466-67.

marketing strategies, and business processes, employers can claim ownership over knowledge which limits the ability for an employee to take a new position working for a competitor or founding a new company.<sup>63</sup>

Moreover, in recent years, employment contracts routinely include non-disclosure agreements with expansive and open-ended lists of confidential information—adding a contractual layer on top of statutory protections.<sup>64</sup> The message to the job market is simple: if employees use knowledge and information from a previous position, those employees may be the subject of criminal and civil prosecutions.<sup>65</sup> This means that with every expansion of trade secret law, employees face higher risks upon leaving an employer. In turn, the continued expansion of trade secrecy litigation risks chilling lawful exchanges of knowledge and talent. In a series of recent publications, as well as in my book *Talent Wants to Be Free*, I analyze a range of empirical evidence which suggests that curtailing the flow of talent and knowledge can have detrimental effects on innovation.<sup>66</sup>

Entrepreneurship is especially harmed when workers fear leaving their employers. If employees are unable to use their knowledge, or human capital learned through their employment with established firms, they are not only less likely to leave, they are particularly less likely to go to less established, more vulnerable entities.<sup>67</sup> Consequently, employees are less likely to consider starting their own businesses, build their own products, or create new services.<sup>68</sup> Competitors might also be reluctant to hire away employees for fear of being criminally or civilly prosecuted. Smaller, newer companies can be restricted from growing or entering a market by larger, long-established firms with more resources.<sup>69</sup> Such established firms can threaten IP litigation for the purpose of stifling entrepreneurs as well as new startups, and competitors.

Beyond the more general threat and costs of litigation under the DTSA, the controversial *ex parte* seizure provision, could have particularly harmful effects on small companies. If granted, the plaintiff can seize property to stop the usage and spread of the trade secret without giving the defendant any opportunity to respond.<sup>70</sup> However, the DTSA does limit the *ex parte* provisions to “extraordinary circumstances.”<sup>71</sup> It requires parties show with “reasonable particularity” what property is to be seized, and that the target would destroy the property if put on notice.<sup>72</sup> And yet, as one critique put it, “[s]o much business information can potentially qualify as a trade secret that it is easy for unscrupulous plaintiffs to manufacture trade secret

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63. See Office of Economic Policy, *supra* note 60, at 6-7.

64. Lobel, *supra* note 44, at 810.

65. See *id.* at 811-12.

66. ORLY LOBEL, *TALENT WANTS TO BE FREE: WHY WE SHOULD LEARN TO LOVE LEAKS, RAIDS, AND FREE RIDING* 141-52 (Yale Univ. Press 2013); Lobel, *supra* note 44, at 835; On Amir & Orly Lobel, *Driving Performance: A Growth Theory of Noncompete Law*, 16 STAN. TECH. L. REV. 833, 836-38 (2013).

67. See Amir & Lobel, *supra* note 66, at 838-39.

68. *Id.* at 846.

69. *Id.* at 859.

70. Bill Donahue, *Defend Trade Secrets Act: Lessons From Year 1*, LAW360 (May 10, 2017), <https://www.law360.com/articles/886926/defend-trade-secrets-act-lessons-from-year-1>.

71. 18 U.S.C.A. § 1836(b)(2)(A) (West 2016).

72. *Id.*

claims and use them as strategic weapons.”<sup>73</sup> Thus, the concern is that the *ex parte* provision will be abused by larger companies preying against competitor startups.<sup>74</sup>

Because of the risks that trade secrecy will be used in patterned ways against competitors and former employees who want to move in the market, the controversial inevitable disclosure doctrine (“the doctrine”), which allows courts to issue an injunction against taking on a new job was debated before its enactment.<sup>75</sup> Under the doctrine, a plaintiff can “prove a claim of trade secret misappropriation by demonstrating that [the] defendant’s new employment will inevitably lead him to rely on the plaintiff’s trade secrets.”<sup>76</sup> The doctrine is controversial because it creates an *ex-post de facto* non-compete action against a former employee, even in the absence of neither actual trade secret misappropriation, nor a non-compete clause in the employee’s contract.<sup>77</sup>

Some states enforce the doctrine and permit courts to issue an injunction to enjoin a former employee from working for a competitor if the court is convinced the employee would “inevitably” use their former employer’s secrets in their new position.<sup>78</sup> Other states, such as California and Maryland, have explicitly rejected the doctrine as bad policy.<sup>79</sup> At least some evidence exists to suggest that states that have adopted the doctrine experience less job mobility.<sup>80</sup> In one study that compared states that adopted the doctrine to those that reject it, researchers combined analyses of state trade secrets laws on the inevitable disclosure doctrine with records of changes of employers from the Current Population Survey to determine the effect of inevitable disclosure on labor mobility.<sup>81</sup> The study finds that in states where courts have ruled against the doctrine there is “a 9.7 [%] increase in the probability of a university-educated worker changing employer, and a statistically insignificant 3.6 [%] reduction in the probability of a less educated worker changing employer.”<sup>82</sup>

Another study by Wharton researchers examines the consequences of adopting the doctrine in Illinois.<sup>83</sup> The researchers conclude that strengthening employer-friendly trade secrecy by adopting the doctrine adversely affects innovation.<sup>84</sup> The researchers show that adoption of the doctrine is correlated with a decrease in patenting as well as a decrease in the quality of patents granted.<sup>85</sup> Comparing different

73. John Tanski, *The Defend Trade Secrets Act is Strong Medicine. Is It Too Strong?*, CORP. COUNS. (Oct. 30, 2015), <http://www.corpcounsel.com/id=1202741205249/The-Defend-Trade-Secrets-Act-Is-Strong-Medicine-Is-It-Too-Strong>.

74. Cohen, *supra* note 5.

75. James Pooley, *Trade Secret Bill Resolves ‘Inevitable Disclosure’ Controversy*, LAW360 (Feb. 17, 2016, 10:43 AM), <https://www.law360.com/articles/759425/trade-secret-bill-resolves-inevitable-disclosure-controversy>.

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

77. Pooley, *supra* note 75.

78. *Id.*

79. *E.g.*, *Whyte v. Schlage Lock Co.*, 101 Cal. App. 4th 1443, 1447 (Cal. Ct. App. 2002); *LeJeune v. Coin Acceptors, Inc.*, 849 A.2d 451, 458 (Md. 2004).

80. See Ivan P. L. Png & Sampsa Samila, *Trade Secrets Law and Mobility: Evidence from “Inevitable Disclosure”*, SSRN (Feb. 14, 2015), [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1986775](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1986775).

81. *Id.*

82. *Id.* at 3.

83. Andrea Contigiani et al., *Trade Secrets and Innovation: Evidence from the “Inevitable Disclosure” Doctrine*, FACULTY.WHARTON.UPENN.EDU (Oct. 2017), [https://faculty.wharton.upenn.edu/wp-content/uploads/2017/01/Trade-Secrets\\_IDD\\_Oct-2017.pdf](https://faculty.wharton.upenn.edu/wp-content/uploads/2017/01/Trade-Secrets_IDD_Oct-2017.pdf).

84. *Id.*

85. *Id.*

types of patents that would more likely lend themselves to substitution by secrecy, the study rules out the possibility that the effect is due to a shift away from patent protection to trade secrecy.<sup>86</sup> Rather, the researchers conclude that the more likely mechanism that explains the decline in innovation is that of dampened employee incentives in an increased secrecy environment.<sup>87</sup> The study explains that when job mobility is more of a possibility, employee inventors are incentivized to innovate to signal their quality in the job market.<sup>88</sup> When mobility is constrained by an increased secrecy ecology, this incentive structure is curtailed.<sup>89</sup>

Given the controversial and problematic nature of the inevitable disclosure doctrine, the final language of the DTSA represents a compromise between the two opposing approaches of states which adopted, and states which rejected it.<sup>90</sup> The DTSA states that an injunction issued under the DTSA may not “prevent a person from entering into an employment relationship,” and any conditions placed on a former employee’s employment in an injunction must be based on “evidence of threatened misappropriation and not merely on the information the person knows.”<sup>91</sup> The language of “threatened misappropriation” could be interpreted as a basis for adopting the concept of inevitable disclosure. Yet, the DTSA specifies that the order may not “otherwise conflict with an applicable [s]tate law prohibiting restraints on the practice of lawful profession, trade, or business.”<sup>92</sup> This could be understood to prohibit the adoption of the doctrine of inevitable disclosure in states, primarily California, that deem non-compete clauses void. It could further be interpreted to prohibit the adoption of the doctrine in any state that has explicitly rejected the doctrine under its state trade secret law.

The DTSA’s first year shows there is, at the very least, uncertainty about whether this eventual language allows the use of the inevitable disclosure doctrine under the DTSA. In one DTSA case, the federal court in the Northern District of Illinois issued an injunction against an employee seeking to join a competitor.<sup>93</sup> The case involved an employee downloading files onto a personal thumb drive before taking a job with a competitor, and the case was litigated under both the DTSA and the Illinois Trade Secrets Act.<sup>94</sup> While Illinois has explicitly adopted the doctrine of inevitable disclosure, the facts of this case indicate an actual misappropriation such that the injunction does not represent the stronger and more controversial scenario of inevitable disclosure, which involves no showing of actual taking of information.<sup>95</sup>

Less than a month later, the United States Court of Appeals for the Third Circuit applied the inevitable disclosure doctrine and issued a temporary restraining

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86. *Id.*

87. *Id.*

88. *Id.*

89. *Id.*

90. Pooley, *supra* note 75.

91. 18 U.S.C.A. § 1836(b)(3)(A) (West 2016).

92. *Id.*

93. *Molon Motor & Coil Corp. v. Nidec Motor Corp.*, No. 16 C 03545, 2017 U.S. Dist. LEXIS 71700 (N.D. Ill. May 11, 2017).

94. *Id.* at \*2-4.

95. *Id.* at \*13; see also Scott Humphrey, *Illinois Federal Court Allows Inevitable Disclosure Theory in Defend Trade Secrets Act Case*, LEXOLOGY (June 28, 2017), <http://www.lexology.com/library/detail.aspx?g=c1b3d8ad-e553-436f-ab6f-1ba11e3e16e2>.

order (“TRO”) when an employee sought to move to a direct competitor.<sup>96</sup> The former employer claimed the employee had access to confidential information, including “customer lists, price lists, and marketing and sales strategies.”<sup>97</sup> The district court issued a TRO, stating that if the former employee began work with the competitor, he would likely “be assigned to solicit his former clients” and would “likely use his specialized and confidential knowledge to the detriment of Fres-co.”<sup>98</sup> On appeal to the Third Circuit, the Court explained that under both the Pennsylvania Uniform Trade Secrets Act and the DTSA, “misappropriation of trade secrets need not have already occurred to warrant injunctive relief; threatened misappropriation is sufficient.”<sup>99</sup>

The court cited the Circuit’s leading case that applied the inevitable disclosure doctrine.<sup>100</sup>

Given the substantial overlap (if not identity) between Hawkins’s work for Fres-co and his intended work for Transcontinental—same role, same industry, and same geographic region—the District Court was well within its discretion to conclude Hawkins *would likely use his confidential knowledge to Fres-co’s detriment*.<sup>101</sup>

The uncertainty of the application of the inevitable disclosure doctrine under the DTSA can be linked to other problematic aspects of the DTSA. The DTSA does not require a plaintiff to identify with particularity prior to discovery, the alleged trade secrets that were misappropriated.<sup>102</sup> By contrast, under California law, a plaintiff must identify the allegedly stolen trade secrets with “reasonable particularity” before discovery in order “to limit the permissible scope of discovery.”<sup>103</sup> California courts have explained that the requirement “prevents plaintiffs from using the discovery process as a means to obtain the defendant’s trade secrets.”<sup>104</sup> It is uncertain whether the California requirement will continue to apply in disputes between Californian litigants under the DTSA. In *Space Data Corp. v. X*, the court dismissed the plaintiff’s DTSA claim, in part for its failure to adequately identify the trade secrets at issue.<sup>105</sup> However, in *Mission Measurement Corp. v. Blackbaud, Inc.*, the court applied Illinois’s UTSA law in denying defendant’s motion to dismiss the plaintiff’s DTSA claim for failure to identify the alleged trade secrets.<sup>106</sup>

More generally, courts have been far from uniform in how they interpret the DTSA. In *Kuryakyn Holdings, LLC v. Ciro, LLC*, the court noted “that substantively the UTSA and DTSA are ‘essentially the same’ . . . and that courts may look to the

96. *Fres-co Sys. USA, Inc. v. Hawkins*, No. 16-3591, 2017 WL 2376568, at \*\*2 (3d Cir. June 1, 2017).

97. *Id.* at \*\*3.

98. *Id.*

99. *Id.*

100. *Bimbo Bakeries USA, Inc. v. Botticella*, 613 F.3d 102, 114 (3d Cir. 2010).

101. *Fres-co Sys. USA*, 2017 WL 2376568, at \*\*3.

102. *See generally* 18 U.S.C.A. § 1836 (West 2016).

103. *CAL. CIV. PROC. CODE* § 2019.210 (West 2005); *Loop AI Labs Inc. v. Gatti*, 195 F. Supp. 3d 1107, 1111 (N.D. Cal. 2016).

104. *Loop AI Labs Inc.*, 195 F. Supp. 3d at 1112 (quoting *Lillith Games (Shanghai) Co. Ltd v. uCool, Inc.*, No. 15-CV-01265-SC, 2015 WL 4149066, at \*4 (N.D. Cal. July 9, 2017)).

105. *Space Data Corp. v. X*, No. 16-cv-03260-BLF, 2017 U.S. Dist. LEXIS 22571, at \*3-5 (N.D. Cal. Feb. 16, 2017).

106. *Mission Measurement Corp. v. Blackbaud, Inc.*, 216 F. Supp. 3d 915, 922 (N.D. Ill. 2016).

state UTSA when interpreting the DTSA.<sup>107</sup> Consequently, at least in that case, the court applied the existing interpretation of Wisconsin's UTSA to interpret the DTSA.<sup>108</sup> Similarly, in *Henry Schein v. Cook*, a California district court said the DTSA and California's UTSA have similar definitions of trade secret and then used California law to determine if the information at issue even qualified as a trade secret.<sup>109</sup> At the same time, the DTSA is a new law with different language and provisions, and uncertainty remains regarding the relationship between the new DTSA and state law. For example, the DTSA defines "misappropriation" broadly, and contains examples of unauthorized appropriations which are not listed in the UTSA.<sup>110</sup> These examples include transmitting, communicating, duplicating, and sketching, which suggests that even benign activities, like memorization, may be actionable.<sup>111</sup> The professors' opposition letter warned that "the DTSA would undermine this high degree of uniformity by creating new differences with existing state law and by requiring the development of a new body of federal jurisprudence."<sup>112</sup> The concerns raised in the letter now seem to materialize with the nascent jurisprudence under the DTSA.

While the DTSA presents a range of risks for employees, one promising aspect of the DTSA is the establishment of whistleblower protections for individuals who disclose trade secrets to a government official to report or investigate a violation of law, or to an attorney in an under-seal complaint or filing.<sup>113</sup> In other words, the DTSA gives employees immunity from criminal or civil liability for reporting illegalities. The DTSA requires notice of this immunity in all employment contracts.<sup>114</sup> Since 2016, all employers are required to provide a notice-of-immunity to employees and contractors "in any contract or agreement with an employee that governs the use of a trade secret or other confidential information."<sup>115</sup> Failure to inform employees of whistleblower immunity bars employers from seeking punitive damages and attorneys' fees when suing former employees for trade secret misappropriations under the DTSA.<sup>116</sup> Although this is a positive development, it is an exception that points to the larger rule: employees are at increased risk in all other activities that potentially implicate the broad scope of trade secrets. A better policy would specify more clearly what constitutes "proper means" of acquisition and would include a broader range of immunities.

## V. CONCLUSION

The DTSA has created unprecedented power in the hands of federal courts to oversee the contemporary trade secrecy ecology. In interpreting the new DTSA,

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107. Matthew Werdegar & Warren Braunig, *Jury's Still Out on the Impact of the Defend Trade Secrets Act*, INSIDE COUNS. (May 3, 2017), <https://www.keker.com/Templates/media/files/Articles/Inside%20Counsel%20Werdegar%20Braunig%20DTSA.pdf>.

108. *Kuryakyn Holdings, LLC v. Circo, LLC*, 242 F. Supp. 3d 789, 797 (W.D. Wis. 2017).

109. *Henry Schein v. Cook*, 191 F. Supp. 3d 1072, 1075 (S.D.N.Y. 2016).

110. Goldman, *supra* note 4, at 7.

111. 18 U.S.C.A. § 1839 (West 2016).

112. Goldman, *supra* note 4, at 7.

113. 18 U.S.C.A. § 1833(b)(1).

114. *Id.* § (b)(3).

115. *Id.*

116. *Id.*

courts must aim to appease legitimate concerns about the importance of secrecy in an industry, while also maintaining the traditional delicate balance intellectual property law seeks to strike between incentivizing innovation and cultivating vibrant, creative and inventive environments. In particular, one should aim to ensure that the DTSA is not used to prevent employees from moving from one job to another, and from using their basic skills and experience in their professional lives.