

# CRITICISM OF THE DEFEND TRADE SECRETS ACT OF 2016: FAILURE TO PREEMPT

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President Barack Obama signed the Defend Trade Secrets Act of 2016 (DTSA) into law on May 11, 2016.<sup>1</sup> The DTSA amended the Economic Espionage Act (EEA) to create a federal civil cause of action for trade secret misappropriation.<sup>2</sup>

The DTSA received broad political support.<sup>3</sup> It provides additional protection for trade secrets, a critical part of the modern economy,<sup>4</sup> which are an increasingly common target for theft.<sup>5</sup> However, the DTSA has a major flaw: it does not preempt state law.<sup>6</sup> Consequently, it fails to balance the two competing concerns of trade secret law: providing strong protection of trade secrets and encouraging employee mobility and fair competition.<sup>7</sup> By failing to preempt state trade secret laws, the DTSA increases trade secret protection at the expense of employee mobility and fair competition. Where state trade secret laws emphasize employee mobility, the DTSA undermines those states' policy goals by providing an alternate statutory

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1. Barack Obama, President of the United States, Remarks on Signing the Defend Trade Secrets Act of 2016, 2016 DAILY COMP. PRES. DOC. 1 (May 11, 2016), <https://obamawhitehouse.archives.gov/the-press-office/2016/05/11/remarks-president-signing-s-1890-defend-trade-secrets-act-2016>.

2. Defend Trade Secrets Act of 2016, Pub. L. No. 114-153, 130 Stat. 376 (to be codified in scattered sections of 18 U.S.C.).

3. 162 CONG. REC. H2046-47 (daily ed. Apr. 27, 2016) (tallying the vote for the DTSA in the House of Representatives with 410 ayes, 2 nays, and 21 not voting); 162 CONG. REC. S1635-36 (daily ed. Apr. 4, 2016) (tallying the vote for the DTSA in the Senate with 87 ayes, 0 nays, and 13 not voting).

4. Lora Kolodny, *Companies Expect IP Theft to Rise in the Next Year, According to a New Survey from Deloitte*, TECHCRUNCH (Oct. 25, 2016), <https://techcrunch.com/2016/10/25/companies-expect-ip-theft-to-rise-in-the-next-year-according-to-a-new-survey-from-deloitte/> [<https://perma.cc/QL6A-EKGH>] (“Across the S&P 500, companies’ total value consisted of 87% intellectual property and just 13% tangible assets in 2015 . . .”).

5. *Id.* (“[O]nline theft of IP is a growing concern in tech, according to a new survey . . .”).

6. Defend Trade Secrets Act of 2016 § 2(f), 18 U.S.C. § 1838.

7. *See* Morlife, Inc. v. Perry, 66 Cal. Rptr. 2d 731, 734 (Ct. App. 1997) (discussing the delicate balance of trade secret law’s competing policy considerations).

option for plaintiffs.

This Note argues that Congress should amend the DTSA to preempt state and common law in order to protect trade secrets, preserve employee mobility, and encourage fair competition without undermining state policies. Part I of this Note is a primer on the policy implications of trade secret law and a brief history of the development of trade secret law in the United States. Part II explains some of the key DTSA provisions.<sup>8</sup> Part III proposes amending the DTSA to preempt state and common law trade secret claims. It details the problems caused by the current lack of preemption and explains the benefits of preemption in this area of the law.

## I. BACKGROUND

This Part lays the foundation necessary for understanding the problems created by the DTSA's failure to preempt state trade secret laws. The first Section of this Part explains the warring policy concerns of trade secret law: innovation, disclosure, employee mobility, and fair competition. Then, the following Section provides a brief primer on the basic trade secret law doctrines. The final Section provides an overview of the history of trade secret law, from its common law roots to the enactment of the DTSA.

### A. THE POLICY CONSIDERATIONS OF TRADE SECRET LAW

Trade secret law implicates classic intellectual property law policies of encouraging innovation<sup>9</sup> and promoting disclosure.<sup>10</sup> Laws that protect trade secrets foster innovation by assuring innovators that the fruits of their labor will be protected. Information is a public good.<sup>11</sup> It is both

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8. A detailed analysis of the substantive provisions of the DTSA is outside the scope of this Note, which focuses on the ramifications of concurrent state and federal trade secret law created by the DTSA's failure to preempt state and common law trade secret claims.

9. Mark A. Lemley, *The Surprising Virtues of Treating Trade Secrets as IP Rights*, 61 STAN. L. REV. 311, 326 (2008) ("We grant rights over secret information for the same reason we grant rights in patent and copyright law—to encourage investment in the research and development that produces the information.").

10. Trade secret law promotes disclosure by providing a remedy for misappropriated trade secrets. Without this remedy, trade secret owners would resort to extreme measures to avoid disclosure, even where disclosure is efficient. *Id.* at 313.

11. Joseph E. Stiglitz, *Knowledge As a Global Public Good*, in GLOBAL PUBLIC GOODS: INTERNATIONAL COOPERATION IN THE 21ST CENTURY 308 (Inge Kaul, Isabelle Grunberg & Marc A. Stern eds., 1999) ("Thomas Jefferson, the third president of the United States, described knowledge in the following way: 'he who receives an idea from me, receives instruction himself without lessening mine; as he who lights his taper at mine, receives light without darkening me.' In doing so, Jefferson anticipated the modern concept of a public good. Today we recognize that knowledge is not only a public good but also a global or international public good.").

nonrivalrous and nonexclusive.<sup>12</sup> Without some sort of legal protection or incentive for creation, it will be undersupplied by the free market.<sup>13</sup> In addition to encouraging innovation, trade secret law also encourages disclosure. Without legal protection, innovators would closely guard their trade secrets because they would be without legal recourse if anyone knew and shared their secret. As a public good, information cannot provide a commercial advantage to a single competitor if it is known to everybody. Thus, innovators have a commercial incentive to keep their information goods closely guarded secrets. Trade secret law assures innovators that the benefits of their commercial advantage will not be lost if they disclose their secrets to their employees or contractors.

However, trade secret law also has policy implications for employee mobility and fair competition.<sup>14</sup> Trade secret cases arise in the context of the relationship between competitors, the relationship created by business transactions, and the relationship between employers and employees.<sup>15</sup> These settings create policy concerns absent in other forms of intellectual property: the policies of not inhibiting employee mobility and of not hindering fair competition.

One extreme example concerns the artisans of the Taj Mahal. According to myth, Shah Jahan had the hands of his skilled artisans cut off after the construction of his monument so that they would never build another thing to rival its beauty.<sup>16</sup> However, we need not turn to myth for examples of trade secret laws' impact on employee mobility. Nor is the impact on employee mobility necessarily as extreme as maiming former employees to

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12. *Id.* (“A public good has two critical properties: nonrivalrous consumption—the consumption of one individual does not detract from that of another—and nonexcludability—it is difficult if not impossible to exclude an individual from enjoying the good.”).

13. *Id.* at 311 (“The central public policy implication of public goods is that the state must play some role in the provision of such goods; otherwise they will be undersupplied. If firms cannot appropriate the returns to producing knowledge, then they will have limited incentive to produce it: in deciding how much to invest, they will look only at the return that they acquire, not the benefits that accrue to others.”).

14. Madhavi Sunder, *Trade Secret and Human Freedom*, in *INTELLECTUAL PROPERTY AND THE COMMON LAW* 334–335 (Shyamkrishna Balganeshe 1 ed. 2013) (“[T]rade secret law implicates . . . the freedom to move, to work, to compete, and to think.”).

15. Lemley, *supra* note 9, at 318. The employment relationship is the most common context of trade secret litigation. David S. Almeling et al., *A Statistical Analysis of Trade Secret Litigation in Federal Courts*, 45 GONZ. L. REV. 291, 302 (2009) [hereinafter Almeling, *Federal Court Statistical Analysis*].

16. *Myths About Taj Mahal*, TAJ MAHAL, <http://www.tajmahal.com/56/info/myths-about-taj-mahal.htm> [<https://perma.cc/P4M8-YQAH>] (last visited Feb. 8, 2017).

protect an employer's trade secrets. Under American trade secret law, former employers use litigation, or the threat of litigation, to discourage employees from working for the employer's competitors.<sup>17</sup> Strong trade secret protection thus increases the scope of an employee's potential liability and decreases employee mobility.<sup>18</sup> Decreased mobility then decreases innovation, as employees no longer carry unprotected knowledge and information to new jobs and environments.<sup>19</sup> Additionally, since employers have a lower risk of employee attrition, overall employee compensation is lower in states with broad trade secret protection than in states with narrower protection.<sup>20</sup>

The policy goals of trade secret law are in tension. Robust protection of trade secrets may hinder employee mobility and free competition.<sup>21</sup> Thus, any trade secret law must perform a delicate balance: providing strong trade secret protection without discouraging fair competition or employee

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17. James Bessen, *How Companies Kill Their Employees' Job Searches*, ATLANTIC (Oct. 17, 2014), <https://www.theatlantic.com/business/archive/2014/10/how-companies-kill-their-employees-job-searches/381437/> [<https://perma.cc/92B3-HR2Z>] ("Employers are increasingly taking legal action to prevent former employees from taking their knowledge and skills to new jobs, using trade-secret laws and contracts that cover post-employment activity. The number of lawsuits over noncompete agreements and trade secrets has nearly tripled since 2000. Now Congress is about to go further, giving employers new powers to sue employees under federal law.").

18. *See id.* ("The combination of expanding trade-secret law and the growing use of employment contracts covering post-employment activity has a huge impact on the career trajectories of many workers.").

19. Ronald J. Gilson, *The Legal Infrastructure of High Technology Industrial Districts: Silicon Valley, Route 128, and Covenants Not to Compete*, 74 N.Y.U. L. REV. 575, 578 (1999) ("Silicon Valley's culture of mobility—the constant penetration of local firms' open architecture by job-hopping engineers and the corresponding bias against vertical integration—is much more conducive to the regional distribution of innovative knowledge than Route 128's culture of career-long employment supported by more traditionally organized, vertically integrated firms.").

20. Bessen, *supra* note 17 ("In short, noncompete agreements limit the job opportunities of highly skilled workers. When their choices are so limited, employees have less incentive to develop new skills and new knowledge. Statistical analysis supports this: Comparing states that allow firms to enforce noncompete agreements to those that do not, Mark Garmaise of UCLA found that managers earn less and they receive incentive compensation less often in states with noncompete enforcement, all else equal. Other researchers have found a similar effect in states that provide employers stronger controls via trade-secret law.").

21. JOHN R. THOMAS, CONG. RESEARCH SERV., R41391, THE ROLE OF TRADE SECRETS IN INNOVATION POLICY (2010) (Summary) ("On the other hand, trade secret protection involves the suppression of information, which may hinder competition and the proper functioning of the marketplace. An overly robust trade secret law also could restrain employee mobility . . .").

mobility.

## B. THE BASICS OF TRADE SECRET LAW

All trade secret laws share a few common characteristics. A trade secret is information that has value<sup>22</sup> and has been subject to reasonable efforts to preserve its secrecy.<sup>23</sup> Actionable misappropriation of trade secrets includes unauthorized acquisition, use, or disclosure of the trade secret.<sup>24</sup>

## C. HISTORY OF TRADE SECRET LAW IN THE UNITED STATES

Federal statutes have long protected patents,<sup>25</sup> copyrights,<sup>26</sup> and trademarks.<sup>27</sup> Federal statutory trade secret protection has lagged far behind.<sup>28</sup> Common law has protected trade secrets for much of American legal history.

### 1. *Common Law Development*

Modern American trade secret law originated during the industrial

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22. See, e.g., UNIF. TRADE SECRET ACT § 1(4)(i) (UNIF. LAW COMM'N 1985) (defining a trade secret as information that “derives independent economic value . . . from not being generally known to . . . other person who can obtain economic value from its disclosure or use . . . .”); RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (AM. LAW INST. 1939) (defining a trade secret as something which imparts competitive advantage).

23. See, e.g., UNIF. TRADE SECRET ACT § 1(4)(ii) (UNIF. LAW COMM'N 1985) (defining a trade secret as information that “is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.”); Restatement (First) of Torts § 757 (1939) (“[A] substantial element of secrecy must exist, so that, except by the use of improper means, there would be difficulty in acquiring the information.”).

24. See, e.g., UNIF. TRADE SECRET ACT § 2(i)–(ii) (UNIF. LAW COMM'N 1985); RESTATEMENT (FIRST) OF TORTS § 759 (AM. LAW INST. 1939) (“One who, for the purpose of advancing a rival business interest, procures by improper means information about another’s business is liable to the other for the harm caused by his possession, disclosure or use of the information.”).

25. The first federal patent legislation was the Patent Act of 1790. Pasquale J. Federico, *Operation of the Patent Act of 1790*, 18 J. PAT. OFF. SOC'Y 237 (1936).

26. Copyright law became the subject of a federal statute in 1790. Oren Bracha, *The Adventures of the Statute of Anne in the Land of Unlimited Possibilities: The Life of a Legal Transplant*, 25 BERKELEY TECH. L. J. 1427, 1428 (2010).

27. The first federal trademark statute was created in 1870. Mark P. McKenna, *The Normative Foundations of Trademark Law*, 82 NOTRE DAME L. REV. 1839, 1859 n. 82 (2007). However, the Supreme Court struck down that statute as unconstitutional in 1879. *In Re Trade-Mark Cases*, 100 U.S. 82, 99–100 (1879). Shortly thereafter, in 1881, Congress created a new federal trademark act. David S. Almeling, *Seven Reasons Why Trade Secrets Are Increasingly Important*, 27 BERKELEY TECH. L. J. 1091, 1096 (2012) [hereinafter Almeling, *Increasingly Important*].

28. Almeling, *supra* note 27, at 1096.

revolution.<sup>29</sup> Early trade secret cases arose from property, tort, and contract law.<sup>30</sup> These disparate threads coalesced into the first cohesive statement of trade secret law in the 1868 Massachusetts Supreme Court case, *Peabody v. Norfolk*.<sup>31</sup> In *Peabody*, the Court recognized a broad property interest in trade secrets, which allowed a trade secret owner to recover from a party who takes or discloses a trade secret in violation of a duty imposed by contract or tort law.<sup>32</sup> Thus, *Peabody v. Norfolk* recognized trade secret law's foundation in property, contract, and tort laws, and distinguished it as its own area of law.

Despite *Peabody*'s statement of trade secret law's premise, courts continued to apply varied approaches to trade secret cases. Trade secret law failed to achieve uniformity until seventy years after *Peabody*<sup>33</sup> when the First Restatement of Torts attempted national uniformity by including a section on trade secret law.<sup>34</sup> The First Restatement of Torts was published in 1939 to promote "certainty and clarity"<sup>35</sup> by informing judges and lawyers of the law.<sup>36</sup> However, courts did not uniformly adopt the Restatement's provisions on trade secret law.<sup>37</sup> Thus, trade secret law continued to develop without a unified theory. In the decades after the Restatement's publication,<sup>38</sup> common law and new state statutes bred

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29. Robert G. Bone, *A New Look at Trade Secret Law: Doctrine in Search of Justification*, 86 CALIF. L. REV. 241, 251 (1998).

30. Sunder, *supra* note 14, at 337–38.

31. See *Peabody v. Norfolk*, 98 Mass. 452, 458 (1868) ("If he invents or discovers, and keeps secret, a process of manufacture, whether a proper subject for a patent or not, he has not indeed an exclusive right to it as against the public, or against those who in good faith acquire knowledge of it; but he has a property in it, which a court of chancery will protect against one who in violation of contract and breach of confidence undertakes to apply it to his own use, or to disclose it to third persons.").

32. *Id.*

33. William B. Barton, *A Study in the Law of Trade Secrets*, 13 U. CIN. L. REV. 507, 558 (1939) ("Neither the English nor American basis for dealing with trade secrets has yet crystallized around any particular pattern.").

34. David S. Almeling, *Four Reasons to Enact a Federal Trade Secrets Act*, 19 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 769, 772 (2008) [hereinafter Almeling, *Reasons for Federal Act*].

35. RESTATEMENT (FIRST) OF TORTS INTRO. (AM. LAW INST. 1934).

36. *Institute Projects*, AM. LAW INST., <https://www.ali.org/about-ali/institute-projects/> [<https://perma.cc/N2VN-2KVL>] (last visited Oct. 9 2016).

37. James Pooley, *The Top Ten Issues in Trade Secret Law*, 70 TEMP. L. REV. 1181, 1183 (1997).

38. Trade secret law was not included in another restatement until 1995. RESTATEMENT (THIRD) OF UNFAIR COMPETITION §§ 39–45 (AM. LAW INST. 1995).



“conflict and confusion.”<sup>39</sup> In response to this lack of uniformity, the Uniform Law Commission (ULC) suggested that states adopt a uniform statute.

## 2. *The Uniform Trade Secrets Act*

In 1979, the ULC published the Uniform Trade Secrets Act (UTSA) to provide a simple and flexible statutory solution to trade secret misappropriation.<sup>40</sup> The UTSA was “the first comprehensive effort to codify the law of trade secrets protection, incorporating the major common law principles while filling gaps left by the courts.”<sup>41</sup>

Forty-seven states have adopted the UTSA.<sup>42</sup> However, states that adopted the UTSA were free to alter their adoptions. Consequently, the UTSA has failed to achieve complete uniformity, even in the states that have adopted it.

## 3. *State Statutes*

Although the majority of states have adopted the UTSA in whole or in part, small differences between states’ laws can have effects on litigation. Trade secret law uniformity is the subject of heated academic debate.<sup>43</sup> Some scholars emphasize the negative consequences of variations between

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39. Note, *Theft of Trade Secrets: The Need for a Statutory Solution*, 120 U. PA. L. REV. 378, 378 (1971) (“Meanwhile, the body of state and federal law that has traditionally coped with the problem [of trade secret misappropriation] languishes in a deepening maze of conflict and confusion.”).

40. *Why States Should Adopt the UTSA*, UNIF. LAW COMM’N, <http://www.uniformlaws.org/Narrative.aspx?title=Why%20States%20Should%20Adopt%20UTSA> [https://perma.cc/N2VT-ZXEZ] (last visited Oct. 9, 2016).

41. *Id.*

42. *Trade Secret Act*, UNIF. LAW COMM’N, <http://www.uniformlaws.org/Act.aspx?title=trade%20Secrets%20Act> [https://perma.cc/2PZ6-BHZX] (last visited Oct. 17, 2016). There is dispute over whether North Carolina has adopted a slightly modified version of the UTSA or whether North Carolina’s Trade Secrets Protection Act is so heavily changed that it is not an adoption of the Uniform Trade Secrets Act. See Christopher B. Seaman, *The Case Against Federalizing Trade Secrecy*, 101 VA. L. REV. 317, 353 n. 247 (2015). The ULC does not list North Carolina among the states that have adopted the UTSA. *Trade Secret Act*, UNIF. L. COMM’N, <http://www.uniformlaws.org/Act.aspx?title=trade%20Secrets%20Act> [https://perma.cc/2PZ6-BHZX] (last visited Oct. 17, 2016). Massachusetts and New York, the two other states which have not adopted the UTSA, introduced bills to enact the UTSA in 2016. H. 32, 189th Gen. Court (Mass. 2015); S. 3770, 2015 Leg., Reg. Sess. (N.Y. 2015).

43. See, e.g., R. Mark Halligan, *Protection of U.S. Trade Secret Assets: Critical Amendments to the Economic Espionage Act of 1996*, 7 J. MARSHALL REV. INTELL. PROP. L. 656, 670 (2008) (arguing that worries about the variations between state law are overblown, but that a federal civil statute is still necessary to increase uniformity); Seaman, *supra* note 42, at 352–359 (arguing that state trade secret laws are substantially uniform).

states' trade secrets laws: increased litigation costs, increased investigatory costs, decreased innovation, and increased risk of trade secret misappropriation.<sup>44</sup> Others argue that state laws are substantially uniform and that stories of the risks of trade secret law's variability are more smoke than fire.<sup>45</sup> However, the differences in states' laws have real consequences and uniformity is only possible with a federal trade secret law that preempts state laws.

#### 4. *California Trade Secret Law*

California trade secret law provides a useful case study of changes made to the UTSA to enact state policy goals because California adopted a modified version of the UTSA and the California Uniform Trade Secrets Act (CUTSA) has been thoroughly interpreted by the judiciary. The modifications made to the UTSA in the CUTSA protect trade secrets while preserving employee mobility and discouraging anticompetitive behavior.<sup>46</sup> Silicon Valley's thriving technology industry owes its successes in part to the priority California places on employee mobility.<sup>47</sup> Additionally, the CUTSA provides a valuable benchmark for federal trade secret statutes because California's law is one of the most often applied trade secret laws.<sup>48</sup>

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44. See, e.g., Almeling, *Reasons for Federal Act*, *supra* note 34, at 776–78; R. Mark Halligan, *Revisited 2015: Protection of US Trade Secret Assets: Critical Amendments to the Economic Espionage Act of 1996*, 14 J. MARSHALL REV. INTELL. PROP. L. 476, 496 (2015).

45. See, e.g., Seaman, *supra* note 42, at 353–59.

46. In *Computer Economics, Inc. v. Gartner Group, Inc.*, 50 F. Supp. 2d 980, 985 (S.D. Cal. 1999), the court quoted a Memorandum from Messrs. John Carson and Greg Wood to Assemblyman Harris re: Assembly Bill 501:

One area not addressed by the Uniform Act is the area of plaintiff's abuse in initiating trade secret lawsuits for the purpose of harassing or even driving a competitor out of business by forcing a competitor to spend large sums in defending unwarranted litigation. For example, where a plaintiff's employee quits and opens a competing business, a plaintiff often files a lawsuit for trade secret misappropriation which states that the defendant took and is using plaintiff's trade secrets, but does not identify the trade secrets. The plaintiff can then embark upon extensive discovery which the new business is ill equipped to afford. Furthermore, by not informing the defendant with any degree of specificity as to what the alleged trade secrets are, defendant may be forced to disclose its own business or trade secrets . . . .

47. See Gilson, *supra* note 19 (crediting Silicon Valley's success relative to Massachusetts Route 128's high technology corridor to California's restrictions on covenants not to compete).

48. California's state courts saw the most trade secret cases between 1995 and 2009, with 16% of state court trade secret litigation brought in California state courts. David S. Almeling et al., *A Statistical Analysis of Trade Secret Litigation in State Courts*, 46 GONZ.



The DTSA impacts the many litigants who previously used California law.<sup>49</sup>

California adopted the CUTSA in 1984.<sup>50</sup> The CUTSA differs from the UTSA in several ways.

a) California Trade Secret Disclosure

Under California law, a trade secret owner must disclose the trade secret at issue before pursuing discovery.<sup>51</sup> The UTSA does not suggest this requirement, nor have any other states included it in their statutes. Courts have noted that California's early disclosure rule serves four related policy goals:

First, it promotes well-investigated claims and dissuades the filing of meritless trade secret complaints. Second, it prevents plaintiffs from using the discovery process as a means to obtain the defendant's trade secrets. Third, the rule assists the court in framing the appropriate scope of discovery and in determining whether plaintiff's discovery requests fall within that scope. Fourth, it enables defendants to form complete and well-reasoned defenses, ensuring that they need not wait until the eve of trial to effectively defend against charges of trade secret misappropriation.<sup>52</sup>

Thus, an early disclosure rule discourages anticompetitive behavior<sup>53</sup> and preserves employee mobility by discouraging frivolous lawsuits and limiting a plaintiff's otherwise broad powers of discovery.<sup>54</sup> California's early disclosure rule enables defendants to more easily defend against both

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L. REV. 57, 74 (2010) [hereinafter Almeling, *State Court Statistical Analysis*]. Federal district courts located in California saw the second highest number of trade secret cases between 1995 and 2008. Only federal district courts in Illinois saw more trade secret cases. Almeling, *supra* note 15, at 310.

49. Almeling, *Federal Court Statistical Analysis*, *supra* note 15, at 308.

50. Cal. Civ. Code § 3426 (West 2016).

51. Cal. Civ. Proc. Code § 2019.210 (West 2016) (“[B]efore commencing discovery relating to the trade secret, the party alleging the misappropriation shall identify the trade secret with reasonable particularity[.]”).

52. *Brescia v. Angelin*, 90 Cal. Rptr. 3d 842, 848–49 (Ct. App. 2009).

53. *Comput. Econ.*, 50 F. Supp. 2d at 985 (quoting Memorandum from Messrs. John Carson and Greg Wood to Assemblyman Harris re: Assembly Bill 501).

54. *Mattel, Inc. v. MGA Entm't, Inc.*, 782 F. Supp. 2d 911, 967 (C.D. Cal. 2011) (quoting *Whyte v. Schlage Lock Co.*, 125 Cal. Rptr. 2d 277, 286 (Ct. App. 2002)) (“To prevent employers from using trade secret law as a weapon against employee mobility, California requires that ‘a party seeking to protect trade secrets . . . describe the subject matter of the trade secret with sufficient particularity to separate it from matters of general knowledge in the trade or of special knowledge of those persons who are skilled in the trade, and to permit defendant to ascertain at least the boundaries within which the secret lies.’”).

frivolous and well-founded claims of trade secret misappropriation.<sup>55</sup>

Courts in other states<sup>56</sup> have identified three policy considerations weighing against requiring early disclosure of trade secrets:<sup>57</sup>

First, plaintiffs are entitled to broad discovery under the Federal Rules of Civil Procedure.<sup>58</sup> Requiring plaintiffs to disclose their trade secrets early in litigation could bring the litigation to a premature end before plaintiffs get the benefit of broad discovery to ascertain the scope of the misappropriation. Second, plaintiffs may not know which trade secrets a defendant has misappropriated until after discovery.<sup>59</sup> Third, the requirement forces the plaintiff into a precarious position: disclose too much and reveal new trade secrets, or disclose too little and fail to capture trade secrets that the defendant has misappropriated.<sup>60</sup>

Thus, the choice to adopt an early disclosure rule is a choice based on policy and a decision with a substantial effect on litigation.

b) The CUTSA Has a Broader Definition of Trade Secrets than the UTSA

The UTSA requires that trade secrets not be readily ascertainable by proper means.<sup>61</sup> In contrast, the CUTSA does not include that requirement.<sup>62</sup> This difference creates broader trade secret protection in

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55. *Perlan Therapeutics, Inc. v. Superior Court*, 101 Cal. Rptr. 3d 211, 228–29 (Ct. App. 2009) (“Defendants gain strategic and tactical advantages when they are able to convince trial courts that plaintiffs should be required to provide more details pursuant to section 2019.210 before plaintiffs are able to commence discovery. These advantages could be significant, not only because plaintiffs must ‘go first,’ which allows defendants to tailor their defense to plaintiffs’ disclosure, but also because there is often significant delay and cost in compelling satisfactory interrogatory responses.”).

56. California is the only state with a statutory early disclosure requirement. Margaret A. Esquenet & John F. Hornick, *Trade Secret Identification: The Importance of Timing in Discovery*, FINNEGAN (Feb. 2005) <http://www.finnegan.com/resources/articles/articlesdetail.aspx?news=ac7cf37b-c333-4b4e-bafe-6cb9dda0db42> [https://perma.cc/9YUM-P8UL]. However, courts in others states have occasionally imposed similar disclosure requirements. *See, e.g.*, *Del Monte Fresh Produce Co. v. Dole Food Co. Inc.*, 148 F. Supp. 2d 1322, 1323 (S.D. Fla. 2001); *MSCI Inc. v. Jacob*, 945 N.Y.S.2d 863, 865 (Sup. Ct. 2012); *Vesta Corp. v. Amdocs Mgmt. Ltd.*, 147 F. Supp. 3d 1147, 1153 (D. Or. 2015).

57. *DeRubeis v. Witten Techs., Inc.*, 244 F.R.D. 676, 680 (N.D. Ga. 2007).

58. *Id.*

59. *Id.*

60. *Id.*

61. UNIF. TRADE SECRET ACT § 1(4)(i) (UNIF. LAW COMM’N 1985).

62. Cal. Civ. Code § 3426.1(d) (West 2016); *Imax Corp. v. Cinema Techs., Inc.*, 152 F.3d 1161, n. 10 (9th Cir. 1998) (quoting *ABBA Rubber Co. v. Seaquist*, 286 Cal. Rptr. 518, 528, n.9 (Ct. App. 1991)) (“The district court ruled that Imax ‘conveniently

California than in states that have adopted the UTSA's proposed definition. For example, customer lists may be more likely to be protected by trade secret law in California than in other jurisdictions with the "readily ascertainable" restriction.<sup>63</sup> Colorado,<sup>64</sup> Illinois,<sup>65</sup> and Oregon,<sup>66</sup> like California, do not exclude "readily ascertainable" trade secrets.

c) California Courts Reject the Inevitable Disclosure Doctrine

The inevitable disclosure doctrine allows an employer to prevent a former employee from working for a competitor even without evidence of actual misappropriation.<sup>67</sup> The theory behind this doctrine is that a former employee, armed with their former employer's trade secrets, will inevitably use those trade secrets to their new employer's advantage.<sup>68</sup>

California courts have explicitly rejected the inevitable disclosure doctrine.<sup>69</sup> In *Whyte v. Schlage Lock Co.*, the court found that the doctrine conflicted with California's strong policy "favoring employee mobility."<sup>70</sup> Since the inevitable disclosure doctrine arises entirely out of the judicially crafted common law, its use and development vary across the states. A few states, like California, have firmly rejected the inevitable disclosure doctrine.<sup>71</sup> Several states have embraced the inevitable disclosure doctrine,<sup>72</sup> while a few states, including Kansas and Kentucky, have not addressed the issue.<sup>73</sup> Many states' courts have applied the doctrine

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overlook[ed] the [Uniform Trade Secret Act] requirement that to qualify as a "trade secret" the information at issue must not be available through public means.' We note, however, that whether information is "readily ascertainable" is not part of the definition of a trade secret in California.'").

63. Almeling, *State Court Statistical Analysis*, *supra* note 48, at 74 (stating that 68% of California's trade secret cases are customer list cases, compared to 49% of cases in other states' courts); *see, e.g., ABBA Rubber*, 286 Cal. Rptr. at 528 (holding that customer list can be trade secret even if information it contains was available from trade directory).

64. COLO. REV. STAT. § 7-74-102(4) (2016).

65. 765 ILL. COMP. STAT. 1065/2(d) (1998).

66. OR. REV. STAT. § 646.461(4) (2015).

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

68. *Id.*

69. *Whyte v. Schlage Lock Co.*, 125 Cal. Rptr. 2d 277, 291 (Ct. App. 2002).

70. *Id.*

71. Ryan M. Wiesner, *A State-by-State Analysis of Inevitable Disclosure: A Need for Uniformity and a Workable Standard*, 16 MARQ. INTELL. PROP. L. REV. 211, 216-28(2012).

72. *Id.* (listing Arkansas, Connecticut, Delaware, Illinois, Iowa, North Carolina, Pennsylvania, Utah, and Washington as states that have adopted the inevitable disclosure doctrine).

73. *Id.* (listing Colorado, Louisiana, Maryland, and Virginia as states that, like California, have rejected the inevitable disclosure doctrine).

intermittently and inconsistently.<sup>74</sup>

The inconsistency of state statutes and common law points to the need for a nationally consistent federal law. Trade secret owners, innocent employees, and thieves cross state lines. A national trade secret law is necessary.

### 5. *Federal Trade Secret Law Leading Up To The DTSA*

In 1996, the Economic Espionage Act (EEA) became the first federal criminal statute to address trade secret misappropriation directly.<sup>75</sup> However, the EEA did not provide for a civil cause of action for trade secret misappropriation.

Legal scholars and legislators have long felt that the patchwork of state laws and the EEA do not provide sufficient protection for trade secrets.<sup>76</sup> Legislators have tried to create a federal civil cause of action as far back as 1965.<sup>77</sup> Efforts to create a federal civil cause of action escalated before the passage of the DTSA. Legislators unsuccessfully introduced bills with a civil cause of action for trade secret misappropriation in 2012,<sup>78</sup> 2013,<sup>79</sup> 2014,<sup>80</sup> 2015,<sup>81</sup> and, ultimately succeeded in 2016.<sup>82</sup> The DTSA, enacted on May 11, 2016, finally introduced a federal civil cause of action for trade secret misappropriation.<sup>83</sup>

Proponents laud the DTSA for providing greater protection to trade secrets, which constitute a significant portion of the economy<sup>84</sup> and are

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74. *Id.* (compiling case law on the inevitable disclosure doctrine in states that have considered the issue and finding that courts in Florida, Indiana, Massachusetts, Michigan, Minnesota, New Jersey, New York, and Texas apply the doctrine inconsistently).

75. 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, 904 (2013).

76. *See, e.g., Theft of Trade Secrets, supra* note 39, at 378 (“Meanwhile, the body of state and federal law that has traditionally coped with the problem languishes in a deepening maze of conflict and confusion.”).

77. J. M. C., *Trade Secrets Law After Sears and Compco*, 53 VA. L. REV. 356, 372–74 (1967).

78. Protecting American Trade Secrets and Innovation Act of 2012, S. 3389, 112th Cong.

79. Private Right of Action Against Theft of Trade Secrets Act of 2013, H.R. 2466, 113th Cong.

80. Defend Trade Secrets Act of 2014, S. 2267, 114th Cong.

81. Defend Trade Secrets Act of 2015, H.R. 3326, 115th Cong.

82. Defend Trade Secrets Act of 2016, Pub. L. No. 114-153, 130 Stat. 376 (to be codified in scattered sections of 18 U.S.C.).

83. *See* Obama, *supra* note 1.

84. Alissa Cardillo, *Another Bite at the Apple for Trade Secret Protection: Why Stronger Federal Laws Are Needed to Protect a Corporation’s Most Valuable Property*, 10 BROOK. J. CORP. FIN. & COM. L. 577, 577 (2016).

increasingly at risk of digital theft.<sup>85</sup> The DTSA brought trade secrets under Congressional control so that Congress could craft cohesive intellectual property policy.<sup>86</sup> The DTSA provides greater extraterritorial reach than state civil trade secret laws<sup>87</sup> amid growing fears of international trade secret theft.<sup>88</sup> Proponents of a federal civil law hoped that federal legislation would bring uniformity to trade secret law.<sup>89</sup> However, the DTSA failed to create uniformity by not preempting state laws.

## II. THE DEFEND TRADE SECRETS ACT

This Part provides an overview of the major provisions of the DTSA. This side-by-side comparison of the definitions and provisions of the DTSA with the UTSA and various state statutes reveal specific ways in which the DTSA has increased the variability of trade secret law. The differences between the DTSA and state statutes begin in the definitions that delimit the scope of the law.

### A. DEFINITIONS

#### 1. *Trade Secret*

The DTSA modified the definition of trade secret found in the EEA to more closely align with the definition in the UTSA.<sup>90</sup> The EEA definition was broader than the UTSA definition.<sup>91</sup> One difference between the definition in the UTSA and the EEA that broadened the definition of trade

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85. *Economic Espionage and Trade Secret Theft: Are Our Laws Adequate for Today's Threats? Hearing Before the Subcomm. on Crime & Senate Terrorism of the S. Comm. on the Judiciary*, 113th Cong. 3 (2014) (testimony of Drew Greenblatt) (“Trade secrets increasingly are at risk in today’s mobile and interconnected global marketplace. Estimates of losses from trade secrets theft range from one to three percent of GDP in the United States and other advanced developed economies. The head of the National Security Agency and U.S. Cyber Command believes theft costs American companies \$250 billion per year.”).

86. Almeling, *Reasons for Federal Act*, *supra* note 34, at 788–91.

87. Halligan, *supra* note 44, at 495.

88. See EXECUTIVE OFFICE OF THE PRESIDENT OF THE UNITED STATES, ADMINISTRATION STRATEGY ON MITIGATING THE THEFT OF U.S. TRADE SECRETS 1–2 (2013).

89. Almeling, *Reasons for Federal Act*, *supra* note 34, at 776–82.

90. See *Defend Trade Secrets Act of 2016* § 2(b)(1), Pub. L. No. 114-153, 18 U.S.C. § 1839(3), 130 Stat. 376, 380.

91. *United States v. Hsu*, 155 F.3d 189, 196 (3d Cir. 1998) (“The EEA’s definition of a ‘trade secret’ is similar to that found in a number of state civil statutes and the Uniform Trade Secrets Act (‘UTSA’), a model ordinance which permits civil actions for the misappropriation of trade secrets. There are, though, several critical differences which serve to broaden the EEA’s scope.”).

secrets protected by the EEA was that trade secrets protected by the EEA must derive “independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, the public,” while the UTSA only requires that trade secrets derive “independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use.”<sup>92</sup> The DTSA replaces the words “the public” in the EEA definition with the words “another person who can obtain economic value from the disclosure or use of the information.”<sup>93</sup> Thus, the DTSA definition is more similar to the UTSA definition than the EEA definition was. However, the DTSA definition preserves some other differences between the EEA and UTSA definitions and may still be broader than the UTSA definition.<sup>94</sup> The DTSA definition is meant to be substantively similar to the UTSA definition, despite these differences.<sup>95</sup>

Although the DTSA definition is substantially similar to the UTSA definition, it is not necessarily similar to the definitions adopted in state laws. Recall that California adopted a broader trade secret definition by not requiring that a trade secret not be “readily ascertainable.”<sup>96</sup> Other states

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92. *Hsu*, 155 F.3d at 196 (“[T]he EEA alters the relevant party from whom proprietary information must be kept confidential. Under the UTSA, information classified as a “trade secret” cannot be generally known by businesspersons or competitors of the trade secret owner. UTSA § 1(4). The EEA, however, indicates that a trade secret must not be generally known to, or readily ascertainable by, the general public, rather than simply those who can obtain economic value from the secret’s disclosure or use.”). *Compare* Economic Espionage Act, 18 U.S.C. § 1839(3)(b) (2012) (Trade secrets are “information [that] derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, the public[.]”), *with* Unif. Trade Secret Act § 1(4)(i) (Unif. Law Comm’n amended 1985) (Trade secrets are information that “derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use[.]”).

93. Defend Trade Secrets Act of 2016 § 2(b)(1), Pub. L. No. 114-153, 18 U.S.C. § 1839(3), 130 Stat. 376, 380.

94. *Hsu*, 155 F.3d at 196 (“There are, though, several critical differences which serve to broaden the EEA’s scope. First, and most importantly, the EEA protects a wider variety of technological and intangible information than current civil laws. Trade secrets are no longer restricted to formulas, patterns, and compilations, but now include programs and codes, ‘whether tangible or intangible, and whether or how stored.’ “).

95. S. REP. NO. 114-220, at 10 (2016) (“While other minor differences between the UTSA and Federal definition of a trade secret remain, the Committee does not intend for the definition of a trade secret to be meaningfully different from the scope of that definition as understood by courts in States that have adopted the UTSA.”).

96. *See* Cal. Civ. Code § 3426.1(d) (West 2016); *see also supra* Section I.C.4.b).



have modified the scope of a trade secret in other ways. For example, Tennessee's definition is broader than the UTSA's definition because it identifies categories of information not listed in the UTSA.<sup>97</sup>

## 2. *Misappropriation*

The DTSA added a definition of misappropriation that was not included in the original EEA.<sup>98</sup> The DTSA and recommended UTSA definitions are substantially identical.<sup>99</sup> In the DTSA, misappropriation is defined as “acquisition of a trade secret” by someone “who knows or has reason to know that the trade secret was acquired by improper means,” or “disclosure or use of a trade secret . . . without express or implied consent” by someone who improperly acquired the trade secret or who knew or had reason to know that the information was an improperly acquired or disclosed trade secret.<sup>100</sup> Although the DTSA definition is substantially identical to the UTSA definition, a few states have modified the definition of misappropriation in their adoptions of the UTSA. For example, Alabama's statute defines misappropriation in terms of “[a] person who discloses or uses the trade secret of another, without a privilege to do so.”<sup>101</sup>

## B. DAMAGES AND REMEDIES

### 1. *Injunctions*

The DTSA allows courts to grant an injunction “to prevent actual or threatened misappropriation,” so long as the injunction does not prevent a person's employment.<sup>102</sup> Although the DTSA injunction provision was “drawn directly from” the UTSA,<sup>103</sup> there is one difference between the injunctive relief offered by the DTSA and that recommended by the UTSA.

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97. *Hamilton-Ryker Grp., LLC v. Keymon*, No. W200800936COAR3CV, 2010 WL 323057, at \*14 (Tenn. Ct. App. Jan. 28, 2010) (“The Tennessee legislature adopted . . . additions which make Tennessee's definition even broader than the definition in the Uniform Act.”).

98. *Compare* Defend Trade Secrets Act of 2016 § 2(b)(3), Pub. L. No. 114-153, 18 U.S.C. § 1839(5), 130 Stat. 376, 381 (adding a definition for misappropriation to 18 U.S.C. § 1839), *with* Economic Espionage Act, 18 U.S.C. § 1831(a) (2013) (defining the actus reus and mens rea necessary for criminal economic espionage, not civil trade secret misappropriation).

99. *Compare* Defend Trade Secrets Act of 2016 § 2(b)(3), Pub. L. No. 114-153, 130 Stat. 376 (defining actionable misappropriation under the DTSA), *with* UNIF. TRADE SECRET ACT § 1(4)(i) (UNIF. LAW COMM'N 1985) (defining misappropriation in substantially similar language as the DTSA).

100. Defend Trade Secrets Act of 2016 § 2(b)(3), Pub. L. No. 114-153, 130 Stat. 376.

101. Ala. Code § 8-27-3 (1987).

102. Defend Trade Secrets Act of 2016 § 2(a), Pub. L. No. 114-153, 130 Stat. 376.

103. H.R. Rep. No. 114-529 at 12 (2016).

The UTSA specifies that “an injunction shall be terminated when the trade secret has ceased to exist, but the injunction may be continued for an additional reasonable period of time in order to eliminate commercial advantage that otherwise would be derived from the misappropriation.”<sup>104</sup> The DTSA contains no such limitation, but rather allows injunctions “on such terms as the court deems reasonable.”<sup>105</sup> It is unclear what effect this difference in language will have. As with most provisions of the UTSA, some states have modified the injunction provision and thus have statutes which differ from both the UTSA and DTSA. For example, the adoptions of the UTSA in Alabama<sup>106</sup> and Colorado<sup>107</sup> lack the limitation that “an injunction shall be terminated when the trade secret has ceased to exist.”

## 2. Damages

The DTSA authorizes monetary damages for “actual loss caused by the misappropriation,” and “any unjust appropriation” beyond the amount included in the “actual loss.”<sup>108</sup> Alternately, the DTSA authorizes the use of a “reasonable royalty.”<sup>109</sup> The DTSA allows punitive or exemplary damages up to double the amount of compensatory and unjust enrichment damages in cases of willful and malicious misappropriation.<sup>110</sup> In very similar language, the UTSA authorizes the same damages subject to the caveat that damages should not be awarded “to the extent that a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation renders a monetary recovery inequitable.”<sup>111</sup> Eleven states do not include this limitation in their adoptions of the UTSA.<sup>112</sup> It is unclear

104. UNIF. TRADE SECRET ACT § 2 (UNIF. LAW COMM’N 1985).

105. Defend Trade Secrets Act of 2016 §2(a), 18 U.S.C. § 1836(b)(3)(A)(i), 130 Stat. at 379–80.

106. Ala. Code § 8-27-4(a)(1)a (1987).

107. Colo. Rev. Stat. § 7-74-103 (2016).

108. Defend Trade Secrets Act of 2016 § 2(a), 18 U.S.C. § 1836(b)(3)(B)(i), 130 Stat. at 380.

109. Defend Trade Secrets Act § 2(a), 18 U.S.C. § 1836(b)(3)(B)(ii), 130 Stat. at 380.

110. Defend Trade Secrets Act § 2(a), 18 U.S.C. § 1836(b)(3)(C), 130 Stat. at 380.

111. UNIF. TRADE SECRET ACT § 3(a) (UNIF. LAW COMM’N 1985).

112. Alabama, Arkansas, California, Connecticut, Georgia, Illinois, Indiana, Louisiana, Texas, Virginia, and Washington’s trade secret statutes do not limit monetary damages “to the extent that a material and prejudicial changes of position prior to acquiring knowledge or reason to know of misappropriation renders a monetary recovery inequitable.” ALA. CODE § 8-27-4 (1987); ALASKA STAT. § 45.50.915 (2011); ARK. CODE ANN. § 4-75-606 (2017); CAL. CIV. CODE § 3426.3 (West 2016); CONN. GEN. STAT. § 35-53 (1995); GA. CODE ANN. § 10-1-763 (2016); 765 ILL. COMP. STAT. § 1065/4 (1998); IND. CODE § 24-2-3-4 (1984); LA. STAT. ANN. § 51:1433 (2016); TEX. CIV. PRAC. & REM CODE ANN. § 134A.004 (2015); VA. CODE ANN. § 59.1-338 (1990); WASH. REV. CODE § 19.108.030 (1981).

whether the lack of this restriction in the DTSA will affect monetary damages awards.

### 3. *Attorney's Fees and Litigation Costs*

The DTSA provides that a prevailing party may recover reasonable attorney's fees "if a claim of the misappropriation is made in bad faith," if "a motion to terminate an injunction is made or opposed in bad faith, or the trade secret was willfully and maliciously misappropriated."<sup>113</sup> The UTSA contains the same provision, in very similar language.<sup>114</sup> Some states that have adopted the UTSA have changed this rule. For example, the statutes in Alaska,<sup>115</sup> Idaho,<sup>116</sup> Missouri,<sup>117</sup> and Nebraska<sup>118</sup> do not provide for the award of attorney's fees. The laws of California,<sup>119</sup> New Jersey,<sup>120</sup> and Pennsylvania<sup>121</sup> allow for recovery of both attorney's fees and litigation costs. The Vermont Trade Secrets Act awards attorney's fees and litigation costs to the substantially prevailing party.<sup>122</sup>

### C. EX-PARTE SEIZURE

The ex-parte seizure provision<sup>123</sup> is one of the most controversial aspects of the DTSA.<sup>124</sup> This provision allows a court to grant an ex-parte seizure order in "extraordinary circumstances" where it is "necessary to prevent the propagation and dissemination of the trade secret."<sup>125</sup> The statute strictly limits the circumstances under which a court may order an ex-parte seizure.<sup>126</sup> Several scholars have already analyzed this controversial provision.<sup>127</sup> Opponents of the provision fear that it will lead

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113. Defend Trade Secrets Act of 2016 § 2(a), 18 U.S.C. § 1836(C), 130 Stat. at 380.

114. UNIF. TRADE SECRET ACT § 4 (UNIF. LAW COMM'N 1985).

115. ALASKA STAT. § 45.50.915 (2011).

116. IDAHO CODE § 48-803 (1990).

117. MO. REV. STAT. § 417.457 (2016).

118. NEB. REV. STAT. § 87-504 (1988).

119. CAL. CIV. CODE § 3426.4 (West 2016).

120. N.J. STAT. ANN. § 56:15-6 (West 2016).

121. 12 PA. CONS. STAT. § 5305 (2004).

122. VT. STAT. ANN. tit. 9, § 4603 (2016).

123. Defend Trade Secrets Act of 2016 § 2(a), Pub. L. No. 114-153, 18 U.S.C. § 1836(b)(2), 130 Stat. at 376-79.

124. Seaman, *supra* note 42, at 342.

125. Defend Trade Secrets Act of 2016 § 2(a), Pub. L. No. 114-153, 18 U.S.C. § 1836(b)(2), 130 Stat. at 376-79.

126. *Id.*

127. See, e.g., James Pooley, *The Myth of the Trade Secret Troll: Why the Defend Trade Secrets Act Improves the Protection of Commercial Information*, 23 GEO. MASON L. REV. 1045 (2016); David S. Levine & Sharon K. Sandeen, *Here Come the Trade Secret Trolls*, 71 WASH. & LEE L. REV. ONLINE 230 (2015).

to anticompetitive litigation with businesses attempting to seize their competitor's trade secrets.<sup>128</sup> Proponents of the provision argue that the provision protects against unfair seizures through a narrow "extraordinary circumstances" standard and by providing victims of unfounded seizure orders with a cause of action for damages resulting from the seizure.<sup>129</sup>

As of October 28, 2016, courts have only granted two ex parte seizures.<sup>130</sup> Courts have required plaintiffs requesting an ex parte seizure to show why a temporary restraining order or preliminary injunction issued under Federal Rule of Civil Procedure 65 is insufficient, and have found those arguments unconvincing more often than not.<sup>131</sup> In addition to showing that a temporary restraining order would be inadequate, plaintiffs requesting an ex parte seizure must provide sufficient evidence for the court to make seven additional factual findings.<sup>132</sup> This evidentiary burden is

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128. David S. Levine & Sharon K. Sandeen, *An Open Letter to the Sponsors of the Revised Defend Trade Secrets Act* (Aug. 3, 2015), <http://cyberlaw.stanford.edu/publications/open-letter-sponsors-revised-defend-trade-secrets-act> [<https://perma.cc/B2ZH-PBVD>].

129. Pooley, *supra* note 127, at 1063.

130. Tony Dutra, *Trade Secret Law Seizure Provision Little-Used So Far*, Bloomberg BNA (Oct. 31, 2016), <https://www.bloomberglaw.com> [<https://perma.cc/YLJ9-LYLJ>] ("[C]ourts have issued seizure orders in only two cases, according to panelists at an Oct. 28 discussion during the 2016 meeting of the American Intellectual Property Law Association in Washington."); *see, e.g.*, *Mission Capital Advisors, LLC v. Romaka*, No. 1:16-cv-05878-LLS (S.D.N.Y. July 29, 2016) (ordering that customer contact lists be seized from defendant after an original ex parte seizure motion was denied and the defendant failed to appear at hearings and ignored court orders).

131. *See, e.g., OOO Brunswick Rail Management v. Sultanov*, where the court stated:

A court may issue a seizure order only if, among other requirements, an order under Fed. R. Civ. P. 65 or another form of equitable relief would be inadequate. 18 U.S.C. § 1836(b)(2)(A)(ii). Here, the Court finds that seizure under the DTSA is unnecessary because the Court will order that Sultanov must deliver these devices to the Court at the time of the hearing scheduled below, and in the meantime, the devices may not be accessed or modified.

No. 5:17-CV-00017-EJD, 2017 WL 67119, at \*2 (N.D. Cal. Jan. 6, 2017); *Jones Printing, LLC v. Adams Lithographing Co.*, 1:16-cv-442 (E.D. Tenn. Nov. 3, 2016) ("Perhaps most importantly, Plaintiff does not specify why relief under Rule 65 is inadequate in this case, which appears to be the preferred form of injunctive relief under § 1836 to date.").

132. In *Balearia Caribbean Ltd. Corp. v. Calvo*, the court held:

Under the recently enacted DTSA, the Court may only issue an ex parte seizure order in 'extraordinary circumstances' and only after making eight factual findings: (1) an order issued pursuant to Rule 65 of the Federal Rules of Civil Procedure would be inadequate, (2) an immediate and irreparable injury would occur if seizure is not ordered, (3) the harm to the movant from denial of the order outweighs the harm to the

especially high considering the very early stage of litigation at which an ex parte seizure is requested. The high evidentiary burden and unlikely success may convince plaintiffs to rely on more traditional temporary restraining orders. Although the initial reticence to grant ex parte seizures may be due to the DTSA's youth and courts' reluctance to be the first to award a new remedy, it seems, at least initially, that fears of overuse of the provision are overblown.

#### D. STATUTE OF LIMITATIONS

The statute of limitations for claims under the DTSA is three years,<sup>133</sup> consistent with the UTSA.<sup>134</sup> However, some states have adopted statutes of limitations that differ from the UTSA's three-year limit. For example, the Alabama legislature shortened the statute of limitations to two years.<sup>135</sup> The statutes in Maine,<sup>136</sup> Nebraska,<sup>137</sup> and Ohio<sup>138</sup> extended the statute of limitations to four years. The statutes in Georgia,<sup>139</sup> Illinois,<sup>140</sup> and

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legitimate interests of the person against whom seizure would be ordered, and substantially outweighs the harm to any third parties; (4) the movant is likely to succeed in showing that the information is a trade secret and the person against whom seizure would be ordered misappropriated the trade secret by improper means or conspired to use improper means to do so, (5) the person against whom seizure is to be ordered has actual possession of the trade secret and the property to be seized; (6) the motion describes with reasonable particularity the matter to be seized and identifies, to the extent practicable, the location where the matter is to be seized, (7) the person against whom seizure would be ordered, or persons acting in concert, would destroy, move, hide, or otherwise make such matter inaccessible to the court if the movant were to proceed on notice, and (8) the movant has not publicized the requested seizure.

No. 1:16-cv-23300-KMV (S.D. Fla. Aug. 5, 2016).

133. Defend Trade Secrets Act of 2016 § 2(a), Pub. L. No. 114-153, 18 U.S.C. § 1836(d), 130 Stat. 376, 380 ("A civil action under subsection (b) may not be commenced later than 3 years after the date on which the misappropriation with respect to which the action would relate is discovered or by the exercise of reasonable diligence should have been discovered. For purposes of this subsection, a continuing misappropriation constitutes a single claim of misappropriation.").

134. UNIF. TRADE SECRET ACT § 6 (UNIF. LAW COMM'N 1985). ("An action for misappropriation must be brought within 3 years after the misappropriation is discovered or by the exercise of reasonable diligence should have been discovered.").

135. Ala. Code § 8-27-5 (1987).

136. Me. Rev. Stat. Ann. tit. 10, § 1547 (2016).

137. Neb. Rev. Stat. § 87-506 (1988).

138. Ohio Rev. Code Ann. § 1333.66 (LexisNexis 2016).

139. Ga. Code Ann. § 10-1-766 (2016).

140. 765 Ill. Comp. Stat. 1065/7 (1998).

Missouri<sup>141</sup> extended the statute of limitations to five years. The Vermont Trade Secrets Act doubled the UTSA's statute of limitations to six years.<sup>142</sup>

#### E. PRE-DISCOVERY DISCLOSURE OF TRADE SECRETS

Unlike the CUTSA, the DTSA does not explicitly require that a trade secret owner alleging misappropriation disclose the trade secrets at issue before commencing discovery. Whether federal courts will impose this requirement is an open question.<sup>143</sup>

#### F. INEVITABLE DISCLOSURE DOCTRINE

The DTSA appears to reject the inevitable disclosure doctrine, because a court may grant an injunction “to prevent any actual or threatened misappropriation,”<sup>144</sup> but may not “prevent a person from entering into an employment relationship.”<sup>145</sup> All conditions placed by a court on a party's employment must “be based on evidence of threatened misappropriation and not merely on the information the person knows.”<sup>146</sup> Injunctions under the Act may not “conflict with an applicable State law prohibiting restraints on the practice of a lawful profession, trade, or business.”<sup>147</sup>

A court applying the DTSA in California should not use the inevitable disclosure doctrine to enjoin a party's employment, because California has rejected the inevitable disclosure doctrine. However, whether the inevitable disclosure doctrine may be used to prove misappropriation is an open question.<sup>148</sup> Thus, a court may impose monetary damages under an inevitable disclosure theory.<sup>149</sup> Consequently, while the DTSA did not

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141. Mo. Rev. Stat. § 417.461 (2016).

142. Vt. Stat. Ann. tit. 12, § 523 (2016).

143. Warren Braunig & Andrea Nill Sanchez, *What the Defend Trade Secrets Act Means for California*, RECORDER (July 23, 2016), <http://www.therecorder.com/id=1202762489915/What-the-Defend-Trade-Secrets-Act-Means-for-California?slreturn=20160914114004> [<https://perma.cc/T3UB-NVD6>].

144. Defend Trade Secrets Act of 2016 § 2(a), Pub. L. No. 114-153, 18 U.S.C. § 1836(b)(3)(A)(i), 130 Stat. 376, 379–80.

145. *Id.*

146. *Id.*

147. *Id.*

148. Victoria Lee, Rajiv Dharnidharka & Katherine Cheung, *Obama Signs Federal Trade Secret Bill into Law: Key Points for IP*, DLA PIPER (May 11, 2016) <https://www.dlapiper.com/en/us/insights/publications/2016/05/obama-signs-federal-trade-secret-bill-into-law/> [<https://perma.cc/69NR-UV6G>]; *cf.* PepsiCo, Inc. v. Redmond, 54 F.3d 1262, 1269 (7th Cir. 1995) (“[A] plaintiff may prove a claim of trade secret misappropriation by demonstrating that defendant's new employment will inevitably lead him to rely on the plaintiff's trade secrets.”).

149. Lee, *supra* note 148.



embrace the inevitable disclosure doctrine, it also did not eliminate it.

#### G. WHISTLEBLOWERS

The DTSA introduces “immunity from liability for confidential disclosure of a trade secret to the government or in a court filing.”<sup>150</sup> This provision, colloquially known as the whistleblower provision, allows for protected disclosure of a trade secret for “reporting a suspected violation of law” to the government or for filing a lawsuit under seal.<sup>151</sup> The DTSA requires employers to notify their employees with contracts governing confidential information of the whistleblower provision’s immunity.<sup>152</sup> If an employer fails to inform their employees about the whistleblower provision, the employer cannot collect exemplary damages or attorney’s fees in a trade secret suit for trade secret misappropriation against the uninformed employee.<sup>153</sup> The whistleblower provision is a new feature of the DTSA and does not appear in the UTSA or state trade secret laws. The whistleblower provision is the only provision in the DTSA which preempts state law.<sup>154</sup>

#### H. PREEMPTION

The DTSA explicitly does not preempt state laws, except as part of the whistleblower provision.<sup>155</sup> The legislative history of the DTSA is silent on this choice to not preempt. Consequently, we are left to speculate on the possible reasons for this meaningful choice.

The DTSA may explicitly disclaim preemption to be uniform with the EEA,<sup>156</sup> which also expressly rejects preemption. It makes sense for the federal criminal statute to reject preemption. Federal prosecutors are overburdened.<sup>157</sup> Rejecting preemption for federal criminal trade secret

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150. Defend Trade Secrets Act of 2016 § 7, 18 U.S.C. § 1833(2), 130 Stat. at 384–86.

151. *Id.*

152. *Id.*

153. *Id.*

154. *Id.* § 7(a), 18 U.S.C. § 1833(b)(1), 130 Stat. at 384 (“An individual shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret [under the whistleblower provision].”).

155. *Id.* § 2(f), 18 U.S.C. § 1838, 130 Stat. at 382 (“Nothing in the amendments made by this section shall be construed to modify the rule of construction under section 1838 of title 18, United States Code, or to preempt any other provision of law.”); *Id.* § 7(a), 18 U.S.C. § 1833(b)(1), 130 Stat. at 384 (“An individual shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret [under the whistleblower provision].”).

156. *See* Economic Espionage Act, 18 U.S.C. § 1838 (2013).

157. BRIAN T. YEH, PROTECTION OF TRADE SECRETS: OVERVIEW OF CURRENT LAW AND LEGISLATION at Summary (2014) (“[B]ecause the U.S. Department of Justice and its

misappropriation allows state prosecutors to share the federal prosecutors' burden and bring more misappropriators to justice. However, a civil cause of action, such as the DTSA, does not suffer from prosecutorial overwork. It does not make sense to extend the choice not to preempt in the EEA to the DTSA on those grounds.

Congress may have chosen not to preempt state laws out of fear of displacing well-developed state laws with undeveloped federal law. Courts have spent decades interpreting state laws.<sup>158</sup> With that precedent comes legal certainty. A new law, such as the DTSA, has no interpretive precedent. However, Congress, for the most part, used identical or similar language to the UTSA.<sup>159</sup> Where the DTSA uses UTSA language, judicial opinions interpreting that language likely exist. If Congress's intent was to avoid uncertainty, it was unnecessary to choose not to preempt state laws.

Congress may have opted not to preempt state laws to allow states to be laboratories of legislative innovation,<sup>160</sup> a commonly cited benefit of federalism.<sup>161</sup> A closely related benefit of allowing states to legislate free from federal preemption is that states can enact legislation reflecting their specific policy goals.<sup>162</sup> For example, California has used its trade secret laws to encourage employee mobility. However, the DTSA undermines states' ability to experiment through legislation or enact local policy by

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Federal Bureau of Investigation have limited investigative and prosecutorial resources, as well as competing enforcement priorities, some observers assert that the federal government cannot adequately protect U.S. trade secrets from domestic and foreign threats.”); Adam M. Gershowitz & Laura R. Killinger, *The State (Never) Rests: How Excessive Prosecutorial Caseloads Harm Criminal Defendants*, 105 NW. U. L. REV. 261 (2011); Daniel C. Richman & William J. Stuntz, *Al Capone's Revenge: An Essay on the Political Economy of Pretextual Prosecution*, 105 COLUM. L. REV. 583, 613 (2005) (“[E]xtreme disjunction between federal jurisdiction and federal resources has bred a norm of radical underenforcement”).

158. However, some states' laws have been more thoroughly analyzed and interpreted by courts than other states' laws. This is one of the factors cited for the lack of uniformity between states' trade secret laws. See Seaman, *supra* note 42, at 325.

159. See S. REP. NO. 114-220, at 10 (2016) (“[T]he Committee does not intend for the definition of a trade secret to be meaningfully different from the scope of that definition as understood by courts in States that have adopted the UTSA.”).

160. *New State Ice Co. v. Liebmann*, 285 U.S. 262, 311 (1932) (Brandeis, J., dissenting) (“It is one of the happy incidents of the federal system that a single courageous state may, if its citizens choose, serve as a laboratory; and try novel social and economic experiments without risk to the rest of the country.”).

161. Robert R. M. Verchick & Nina A. Mendelson, *Preemption and Theories of Federalism*, in PREEMPTION CHOICE: THE THEORY, LAW, AND REALITY OF FEDERALISM'S CORE QUESTION 13, 17 (William W. Buzbee ed., 2009).

162. *Id.* at 16 (“[P]olicies chosen within a state will tend to be tailored to local concerns and to citizen preferences.”).

giving plaintiffs the option to sue under the DTSA *or* state law.<sup>163</sup>

Alternatively, perhaps Congress simply wished to provide more options for trade secret owners to protect their trade secrets. If this was Congress's unstated intention, then the choice not to preempt is certainly effective. However, by giving trade secret owners the power to select from state or federal statutes, Congress has given trade secret owners additional power at the expense of employee mobility and fair competition.

Trade secret law should balance competing policy concerns of protecting intellectual property, encouraging fair competition, and preserving employee mobility.<sup>164</sup> By allowing trade secret owners to choose from different federal and state trade secret laws, the DTSA gives trade secret owners more power at the expense of employees and other potential defendants in trade secret misappropriation cases. Thus, this Note argues that Congress should amend the DTSA to preempt state law to better balance the competing policy goals of trade secret law.

### III. THE DEFEND TRADE SECRETS ACT SHOULD BE AMENDED TO PREEMPT STATE LAW

Congress acknowledged trade secret law's impact on the relationships between employers and employees when it directly addressed the employment relationship in the DTSA. Under the DTSA, a court may not issue an injunction that prevents someone "from entering into an employment relationship" or that "otherwise conflict[s] with an applicable State law prohibiting restraints on the practice of a lawful profession, trade, or business."<sup>165</sup> The text confirms that Congress entertained policy concerns beyond encouraging innovation and protecting trade secrets when creating the DTSA.<sup>166</sup>

However, Congress failed to consider the effect that the DTSA's lack of preemption would have on employees and state policy considerations. Amending the DTSA to preempt state law will better serve the interests of Congress in providing strong, uniform protection of trade secrets while remedying several of the problems caused by a lack of preemption.

This Part first explores some of the problems created by the DTSA's failure to preempt and then discusses the positive ramifications of amending

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163. See *supra* Section III.B.4 (discussing the one-way policy ratchet).

164. See *Morlife, Inc. v. Perry*, 66 Cal. Rptr. 2d 731, 734 (Ct. App. 1997) (discussing the delicate balance of trade secret law's competing policy considerations).

165. *Defend Trade Secrets Act of 2016* § 2(a), Pub. L. No. 114-153, 18 U.S.C. § 1836(b)(3)(A), 130 Stat. 376, 379–80.

166. S. Rep. No. 114-220 at 8 (2016).

the DTSA to preempt state and common law. The first Section explains the repercussions of the failure to preempt: decreasing legal uniformity, increasing forum shopping, increasing employee uncertainty, undercutting state law policies, and potentially resuscitating previously extinct common law claims. The second Section explains the benefits of preemption in federal trade secret law: increasing uniformity, decreasing choice of law disputes, increasing employee certainty, and notifying states that their trade secret law policies are undercut by the federal law.

#### A. PROBLEMS WITH THE LACK OF PREEMPTION

By explicitly disclaiming preemption, the DTSA allows selective preemption at the choice of trade secret owners. A trade secret owner now has the power to choose between federal law and any applicable state laws. Thus, the lack of preemption in the DTSA decreases the uniformity of trade secret law, encourages forum shopping, prevents certainty in employment contexts, and undermines state policy goals. Additionally, the DTSA may reintroduce common law claims previously preempted by state laws. These common law claims may open up defendants to increased liability and further shift the balance of litigious power toward plaintiffs.

##### 1. *Uniformity*

Both proponents and opponents of the DTSA alike criticize the act because the lack of preemption in the DTSA undermines uniformity.<sup>167</sup>

While Congress enacted the DTSA partly in response to the variability of state laws,<sup>168</sup> the DTSA fails to unify the law. The DTSA simply adds another layer of protection over the patchwork of state laws. Substantive differences between the DTSA and various state laws increase the overall variability in trade secret law. This variability increases the power of trade secret owners, who, as plaintiffs, will take advantage of the legal variety by choosing the law most friendly to them.<sup>169</sup> For example, the DTSA allows

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167. See, e.g., David S. Almeling, *Guest Post: Defend Trade Secrets Act—A Primer, an Endorsement, and a Criticism*, PATENTLY-O (May 30, 2014) <http://patentlyo.com/patent/2014/05/secrets-endorsement-criticism.html> [<https://perma.cc/VJ7R-FJG5>] [hereinafter Almeling, *DTSA Primer*]; Seaman, *supra* note 42, at 359–62.

168. Cf. H.R. Rep. No. 114-529 at 4 (2016) (“While 48 states have adopted variations of the UTSA, the state laws vary in a number of ways and contain built-in limitations that make them not wholly effective in a national and global economy.”).

169. There are already many resources to help plaintiffs choose the “friendliest” trade secret law. See, e.g., Braunig & Sanchez, *supra* note 143; Michael Barbee, *Trade Secret Forum Shopping: DTSA vs. Texas UTSA*, LAW360 (July 20, 2016, 12:05 PM), <http://www.law360.com/articles/819494/trade-secret-forum-shopping-dtsa-vs-texas-utsa> [<https://perma.cc/7UPG-NCEV>]; NAT’L ALL. FOR JOBS & INNOVATION, PROTECTION OF

punitive damages of up to twice the amount of compensatory damages in cases of willful and malicious misappropriation.<sup>170</sup> A plaintiff with the option of bringing a claim under Ohio trade secret law would be encouraged to choose Ohio law over the DTSA because Ohio law allows punitive damages of up to three times compensatory damages.<sup>171</sup> Similarly, a plaintiff with the option of filing a case under Alabama trade secret law would be encouraged to choose the DTSA over Alabama law because Alabama law limits potential punitive damages to the amount of compensatory damages.<sup>172</sup> The availability of punitive damages is just one example of differences that will influence plaintiffs' choice of law. The variability in trade secret laws harms employees and other potential defendants who cannot foresee which law will apply to them or their potential scope of liability.

Although some courts de-emphasize differences between various state laws,<sup>173</sup> the differences between state trade secret laws can be dispositive.<sup>174</sup> Choice of law disputes in 2008, eight years before enactment of the DTSA, occurred in approximately 12% of trade secret cases.<sup>175</sup> Arguments over the

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INTELLECTUAL PROPERTY RIGHTS UNDER STATE TRADE SECRET LAWS, (2016), [http://naji.org/wp-content/uploads/2016/10/PROTECTION-OF-IP-RIGHTS-UNDER-STATE-TRADE-SECRET-LAWS\\_NAJI\\_2016-10-05-1.pdf](http://naji.org/wp-content/uploads/2016/10/PROTECTION-OF-IP-RIGHTS-UNDER-STATE-TRADE-SECRET-LAWS_NAJI_2016-10-05-1.pdf) [<https://perma.cc/M3B6-SDKJ>].

170. Defend Trade Secrets Act of 2016 § 2(a), Pub. L. No. 114-153, 18 U.S.C. § 1836(b)(3)(C), 130 Stat. 376, 380.

171. Ohio Rev. Code. Ann. § 1333.63 (LexisNexis 2016). Similarly, the Mississippi, Missouri, Montana, North Carolina, and Vermont statutes do not explicitly limit punitive damages to double the amount of other damages and could yield larger punitive damages awards than the DTSA. Miss. Code Ann. § 75-26-7(2) (2016); Mo. Rev. Stat. § 417.457(2) (2016); Mont. Code Ann. § 30-14-404(2) (1995); N.C. Gen. Stat. Ann. § 66-154(c) (2016); Vt. Stat. Ann. tit. 9 § 4603(b) (2016).

172. Ala. Code § 8-27-4(a)(3) (1987). Similarly, Arkansas, Colorado, Louisiana, Michigan, Nebraska, and Virginia's statutes either limit the amount of potential punitive damages to less than twice the amount available under the DTSA, or do not mention punitive damages in their statutes. Ark. Code Ann. § 4-75-606 (2017); Colo. Rev. Stat. § 7-74-104(2) (2016); La. Stat. Ann. § 51:1433 (2016); Mich. Comp. Laws § 445.1904 (1998); Neb. Rev. Stat. § 87-504 (1988); Va. Code Ann. § 59.1-338(B) (1990).

173. RF Tech. Corp. v. Applied Microwave Tech., Inc., 369 F. Supp. 2d 17, 22 n. 5 (D. Me. 2005) ("Iowa trade secret law is also based upon the Uniform Trade Secrets Act and contains the same definition of a trade secrets as Maine . . . The Court need not resolve any choice of law issue if the 'outcome is the same under the substantive law of either jurisdiction.'").

174. See, e.g., Katch, LLC v. Sweetser, 143 F. Supp. 3d 854, 865 (D. Minn. 2015) ("Whether California or Minnesota law applies to Katch's trade secrets claim is important because California categorically rejects the 'inevitable disclosure' doctrine.").

175. Almeling, *Federal Court Statistical Analysis*, *supra* note 15, at 312. Choice of law disputes seem to be increasing. *Id.*

choice of law in litigation may signify a lack of substantive uniformity in the laws as each party argues for application of the law most beneficial to them.<sup>176</sup> This lack of uniformity is one of the reasons that proponents of a federal civil cause of action called for a uniform federal law.<sup>177</sup> However, instead of increasing the uniformity of trade secret law, the DTSA decreased uniformity.

The decreased uniformity created by the DTSA is harmful to potential defendants in trade secret cases. Plaintiffs have the option to choose between different federal and state laws. Defendants do not get to decide whether they will be sued under federal or state law. Thus, concurrent federal and state trade secret laws shift the balance of litigious power toward plaintiffs and away from defendants. Additionally, the lack of uniformity in the law may burden all parties due to increased costs associated with contracts governing trade secrets.<sup>178</sup>

## 2. *Forum Shopping*

Both before and after the DTSA, a plaintiff in a trade secret case may be able to select several different forums for its trade secret case: the state of the plaintiff's place of business or incorporation;<sup>179</sup> the state of an individual defendant's domicile;<sup>180</sup> the state of a defendant corporation's place of incorporation or principal place of business;<sup>181</sup> any state where the defendant's "affiliations with the State are so 'continuous and systematic' as to render them essentially at home in the forum state;"<sup>182</sup> the state where the alleged misappropriation occurred (location where the conduct causing

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176. *Id.*

177. Almeling, *Reasons for Federal Act*, *supra* note 34, at 776–82.

178. Rachel Kincaid, *Foreign Forum-Selection Frustrations: Determining Clause Validity in Federal Diversity Suits*, 4 STAN. J. COMPLEX LITIG. 131, 135 (noting that varying state laws governing enforcement of forum selection clauses creates uncertainty that "creates a barrier to efficient contracting, which ultimately costs parties money").

179. *See, e.g.*, Dayton Superior Corp. v. Yan, 288 F.R.D. 151, 161–62 (S.D. Ohio 2012) (describing situations in which Ohio courts have found personal jurisdiction over employees of Ohio companies who were not themselves Ohio residents).

180. Goodyear Dunlop Tires Operations, S.A. v. Brown, 564 U.S. 915, 924 (2011) ("For an individual, the paradigm forum for the exercise of general jurisdiction is the individual's domicile[.]").

181. Daimler AG v. Bauman, 134 S. Ct. 746, 749 (2014) ("The paradigm all-purpose forums for general jurisdiction are a corporation's place of incorporation and principal place of business.").

182. *Goodyear*, 564 U.S. at 919 (quoting *Int'l Shoe Co. v. Washington*, 326 U.S. 310, 317 (1945)).



the injury occurred);<sup>183</sup> the state where the trade secrets were allegedly transported to (place where the injury occurred);<sup>184</sup> or the state where harm was felt, if the defendant directed activity toward that forum.<sup>185</sup>

Before the DTSA, plaintiffs could only choose state court forums unless they had access to the federal courts through supplemental or diversity jurisdiction. The DTSA gave federal court system access to all parties. Although most parties already had access to federal courts,<sup>186</sup> the DTSA has increased opportunities for plaintiffs to forum shop.

The DTSA has not only increased the opportunities to forum shop, it has increased the incentive to forum shop. Parallel federal and state laws, such as the DTSA and state trade secret laws, allow trade secret owners to choose the applicable statute that is most beneficial to their case. There are already resources to help potential litigants forum shop for the most beneficial law, and therefore, the most beneficial forum.<sup>187</sup>

Forum shopping in the case of parallel state and federal law is particularly harmful when it is caused by a plaintiff's desire to select between the federal and state laws because it stifles the defendant's ability to advocate for application of a more forgiving state law. The choice of law disputes in 12% of 2008 trade secret cases were among various state laws, as no federal statute applied to trade secret misappropriation claims at that time.<sup>188</sup> In those 2008 disputes, both the trade secret owner plaintiff and the alleged misappropriator defendant could present arguments for the application of the state law that was most forgiving to their case.<sup>189</sup> The DTSA stifles a defendant's ability to argue for the use of a more beneficial

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183. *Lewis v. Fresne*, 252 F.3d 352, 358–59 (5th Cir. 2001) (“A single act by a defendant can be enough to confer personal jurisdiction if that act gives rise to the claim being asserted.”).

184. *Id.* (“A single act by a defendant can be enough to confer personal jurisdiction if that act gives rise to the claim being asserted.”).

185. *See Paolino v. Channel Home Ctrs.*, 668 F.2d 721 (3d Cir. 1981) (holding that Pennsylvania courts had specific jurisdiction over a non-resident company who knew that its misappropriation of a Pennsylvania company's trade secret would cause harm in Pennsylvania). *But see Surgical Laser Techs., Inc. v. C.R. Bard, Inc.*, 921 F. Supp. 281, 284–85 (E.D. Pa. 1996) (holding that Pennsylvania courts did not have specific jurisdiction over a defendant who had not directed any activity at Pennsylvania even though the alleged misappropriation harmed a Pennsylvania company).

186. ROGER M. MILGRIM, 1-1 MILGRIM ON TRADE SECRETS § 13.01 (2015).

187. *See, e.g., Barbee*, *supra* note 169; *Braunig & Sanchez*, *supra* note 143.

188. *Almeling, Federal Court Statistical Analysis*, *supra* note 15, at 312.

189. *Cf. Daimler-Chrysler Servs. N. Am., LLC v. Summit Nat., Inc.*, 289 F. App'x 916, 921 (6th Cir. 2008) (“In tort actions such as this, Michigan choice of law principles provide that Michigan law applies absent a rational reason—such as another state's interest—to apply other law.”).

state law. If the plaintiff determines that the DTSA is better for their case than state law, the plaintiff will only sue under the DTSA. The defendant has no argument for application of a more forgiving state law. This has two adverse effects in addition to increased forum shopping.<sup>190</sup> First, it makes it more difficult for potential defendants to anticipate the direction of potential litigation, making it more difficult for them to make informed choices about their actions. Second, it undercuts the policies that states have incorporated into their trade secret laws.

### 3. *Employee Uncertainty*

Certainty in trade secret law would allow employees, the most common defendants in trade secret cases, to make informed decisions. Conversely, uncertainty in the law, such as the uncertainty created when an employee does not know whether federal or state law will be used against them, prevents employees from making informed decisions. Employees who wish to go work for their employer's competitor will have to analyze the scope of their liability under not only state law, but federal law as well. Even innocent employees will be dissuaded from changing jobs by potential increased liability and frivolous litigation. Consequently, uncertainty stifles employee mobility.

For example, before the DTSA, a California employee of a California company who left to work for a California competitor knew that California trade secret law would apply to any case their employer brought against them for alleged misappropriation. The employee could plan to leave their current employer for another California employer, safe in the knowledge that California has rejected the inevitable disclosure doctrine, and that California's early disclosure rule would discourage frivolous suits against the employee or new employer. Now, the employee may be sued under the DTSA or California trade secret law. The employee no longer enjoys the certainty of California's defendant-friendly law. Consequently, an innocent employee might be discouraged from seeking new employment by the uncertainty of future litigation.

### 4. *The DTSA's Faux Federalism Undercuts State Policy Goals*

The DTSA undermines state policies by not preempting state laws. This

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190. Allowing a plaintiff to select a federal statute has a positive effect: it eliminates costly choice of law disputes in those cases. However, it does not eliminate choice of law disputes where the plaintiff elects to sue under state law. A better solution would be to preempt state law and only allow plaintiffs to sue under the DTSA. *See infra* Section III.B.3.

counterintuitive result has also occurred in trademark law.

Trademark law, like trade secret law, is governed concurrently by federal and state laws.<sup>191</sup> The federal trademark statute, the Lanham Act, does not preempt state trademark laws.<sup>192</sup> Although this scheme seems to empower states to enact their policy goals through trademark statutes, it does not. Professor Mark McKenna has termed this effect of concurrent federal and state trademark law “trademark law’s faux federalism.”<sup>193</sup>

While state and federal claims are available in trademark cases, the state claims are only relevant if they are broader than federal claims.<sup>194</sup> Thus, “[s]tate regulation in this area is a one-way ratchet: state law can only have a meaningful effect to the extent it grants broader rights than are available under federal law.”<sup>195</sup> States can only achieve their policy goals if they increase trademark protection beyond that offered by the Lanham Act.

Similarly, trade secret law is now a one-way ratchet. Only state laws with greater trade secret protection than the federal law will have an effect. If a state’s trade secret laws prioritize policy goals other than protecting trade secrets, such as California’s emphasis on employee mobility,<sup>196</sup> those state policies are undermined by the stronger trade secret protection of the DTSA. For example, if courts interpret the DTSA to not require the plaintiff to disclose the trade secrets at issue early in the litigation, plaintiffs have a clear incentive to choose to sue only under the DTSA and not include a CUTSA claim.<sup>197</sup> This undercuts the policies incorporated in California trade secret law. California requires early disclosure of trade secrets in part to discourage anticompetitive trade secret litigation against a trade secret owner’s competitors.<sup>198</sup> If a California company can avoid California’s early disclosure rule by bringing only a federal claim, the policies behind California’s early disclosure rule are easily circumvented.

State legislatures are lauded as laboratories of legislative

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191. Mark P. McKenna, *Trademark Law’s Faux Federalism*, in *INTELLECTUAL PROPERTY AND THE COMMON LAW* 288, 288 (Shyamkrishna Balganeshe ed., 2013).

192. *Id.*

193. *Id.*

194. *Id.* at 302.

195. *Id.* at 305.

196. *See Whyte v. Schlage Lock Co.*, 125 Cal. Rptr. 2d 277, 292 (Ct. App. 2002).

197. *Comput. Econ., Inc. v. Gartner Grp., Inc.*, 50 F. Supp. 2d 980, 992 (S.D. Cal. 1999) (“A plaintiff with a weak trade secret claim would have ample reason to choose federal court if it offered a chance to circumvent the requirements of CCP § 2019(d).”).

198. *Id.* at 985 (quoting Memorandum from Messrs. John Carson and Greg Wood to Assemblyman Harris re: Assembly Bill 501).

experimentation.<sup>199</sup> However, when conflicting federal and state laws are allowed to coexist, the plaintiff becomes the experimenter, able to select at will the friendliest law, and the states are lulled into a false sense of security that their laws are implementing their policy concerns.

Although states whose trade secret laws are narrower, or less plaintiff-friendly, will be undermined by the DTSA, states whose trade secret laws are broader, or more plaintiff-friendly, will still see their statutes used. Thus, only state policy concerns that prioritize strong and broad trade secret protection are preserved by the DTSA. States are still free to experiment with stronger trade secret protection than that offered by the DTSA. Congress is, of course, free to structure federal trade secret law as a floor of trade secret protection and allow states to offer stronger protection. However, that choice has extensive policy ramifications. It should merit Congressional debate and deliberation. The complete silence on preemption in the legislative history of this DTSA is evidence that Congress did not specifically establish the DTSA as the floor for trade secret protection, but rather did not consider the broad implications of preemption at all.

##### 5. *DTSA May Resuscitate Common Law Claims Which Were Preempted by State Trade Secret Statutes*

Many states' UTSA adoptions preempt overlapping common law claims,<sup>200</sup> such as claims for conversion, unfair competition, and tortious interference.<sup>201</sup> In contrast, the DTSA preempts nothing.<sup>202</sup> This lack of preemption may revive duplicative claims unavailable under state law.<sup>203</sup>

Common law claims have a broader reach than trade secret claims. Where statutory trade secret claims require courts to consider the bounds of a trade secret, common law contract and tort claims do not.<sup>204</sup> Allowing both

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199. *See* *New State Ice Co. v. Liebmann*, 285 U.S. 262, 311 (1932) (Brandeis, J., dissenting).

200. UNIF. TRADE SECRET ACT § 7 (UNIF. LAW COMM'N 1985) ("Except as provided in subsection (b), this Act displaces conflicting tort, restitutionary, and other law of this State providing civil remedies for misappropriation of a trade secret.").

201. Maia T. Woodhouse, *International Report—Federal Defend Trade Secrets Act: Potential Clashes with Existing State Law Pre-emption*, IAM (July 27, 2016), <http://www.iam-media.com/reports/Detail.aspx?g=d4e1ff66-9f4a-4d8a-a10a-78a808394f15> [<https://perma.cc/44L8-DKSS>].

202. Defend Trade Secrets Act of 2016 § 2(f), Pub. L. No. 114-153, 18 U.S.C. § 1838, 130 Stat. 376, 382.

203. Almeling, *DTSA Primer*, *supra* note 167.

204. Lemley, *supra* note 9, at 314 ("Analyzing trade secret claims as IP claims rather than common law contract or tort claims requires courts to focus on what the law is protecting, how, and why—something the common law did not do.").

a federal claim under the DTSA and common law claims arising out of the same set of facts may increase defendants' liability and litigation costs.<sup>205</sup> This increased liability may limit competition through fear of overbroad litigation.<sup>206</sup>

B. PROPOSAL FOR AMENDING THE DTSA TO INCLUDE PREEMPTION

To address the problems caused by the DTSA's failure to preempt state and common law claims, this Note recommends a simple solution: Congress should amend the DTSA to preempt state trade secret claims and related common law claims. Amending the DTSA to preempt state civil trade secret laws would decrease time intensive and costly choice of law disputes. Additionally, it would allow employees to foresee potential litigation and make decisions accordingly, thus enabling employee mobility. It would also put states on notice that state trade secret law is no longer a vehicle for the state's policies, encouraging states to incorporate those policy considerations into other laws, such as employment or contract law.

1. *Preemption Would Increase Uniformity in Trade Secret Law*

Amending the DTSA to preempt state trade secret law would replace the current scheme of fifty state trade secrets laws and one federal law with a single federal law. One federal law is inherently more uniform than fifty-one laws covering the same topic.

Although amending the DTSA to preempt state laws will not eliminate forum shopping among federal courts, it will certainly remove one of the incentives to forum shop. Without preemption, companies are encouraged to forum shop for substantive differences in governing statutes. Amending the DTSA to preempt state law claims would eliminate that incentive.

2. *Preemption Would Decrease Costly Choice of Law Disputes*

If the DTSA were amended to preempt state trade secret laws, choice of law disputes would decrease. Since trade secret law is intertwined with the law governing contractual and employment relationships, amending the DTSA to preempt state trade secret law will not eliminate choice of law disputes completely,<sup>207</sup> but will minimize them. Thus, preemption of state

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205. Woodhouse, *supra* note 201.

206. Lemley, *supra* note 9, at 314 ("Understanding trade secrets . . . as imposing a consistent set of standards on claims that would otherwise be based on disparate legal theories and claims of entitlement or free riding-advances the goals of innovation and promotes responsible business conduct without limiting the vigorous competition on which a market economy is based.").

207. Almeling, *Reasons for Federal Act*, *supra* note 34, at 781–82.

trade secret laws will decrease the cost and complexity of trade secret litigation.

3. *Preemption Would Provide Potential Defendants with Certainty*

Amending the DTSA to preempt state law would provide potential defendants with certainty about which law governs their conduct. Consequently, they would be able to make informed choices. Employees, the most common defendant in trade secret cases, would not be discouraged from changing employment by uncertainty. Thus, amending the DTSA to preempt state laws would encourage employee mobility.

4. *Preemption Would Put States on Notice that Trade Secret Law is No Longer a Valid Vehicle for their Policy Concerns*

Trademark law's "faux federalism" has gone largely unnoticed by state legislatures.<sup>208</sup> Professor McKenna has speculated that "the extent of federalization has been obscured by the appearance of concurrent regulation."<sup>209</sup> Similarly, concurrent regulation in trade secret law may obscure the degree to which the DTSA undercuts state law policies. If the DTSA were amended to preempt state laws, states would be put on notice that they can no longer rely on trade secret law to enact policy goals.

Trade secret claims are inherently intertwined with other state law doctrines, such as employment law.<sup>210</sup> The laws that accompany many trade secret claims can incorporate state policy concerns, and thus both uniform trade secret laws and state policy goals can exist simultaneously. For example, states can incorporate concerns about employee mobility in laws restricting agreements not to compete, as California has done.<sup>211</sup> Additionally, states that have judicially adopted California's early disclosure rule, or who have not addressed the issue, could enact statutes that explicitly adopt the early disclosure rule and thus provide potential trade secret misappropriation defendants with additionally procedural protection against frivolous lawsuits. Thus, other areas of law, such as contract law, employment law, and procedural rules can be used to enact the policies currently ingrained in state's trade secret statutes and judicial interpretations of those statutes.

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208. McKenna, *supra* note 191, at 304–05.

209. *Id.* at 305.

210. Almeling, *Reasons for Federal Act*, *supra* note 34, at 793–94.

211. CAL. BUS. & PROF. CODE § 16600 (West 2017) ("Except as provided in this chapter, every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void.").



#### IV. CONCLUSION

Congress should amend the DTSA to preempt state law and common law trade secret claims while preserving states' employment and contract laws. This amendment would better balance the competing concerns of trade secret law. It would preserve the DTSA's strong trade secret protection, thus motivating innovation and disclosure. It would also encourage employee mobility and fair competition and allow states to incorporate policy concerns through other areas of law, such as employment and contract law.

