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Repeal the Defend Trade Secret Act: Why Congress Can't Rely on Trade Secret Law to Protect America's Trade Secrets

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Repeal the Defend Trade Secret Act: Why Congress Can't Rely on Trade Secret Law to Protect America's Trade Secrets

Cover Page Footnote

J.D. Candidate, 2021, University of Georgia School of Law. I wish to thank Professor Joseph S. Miller for his invaluable comments and suggestions throughout the process. Also, I would like to dedicate this Note to "my ladies." To my wonderful wife, Jess, whose unwavering love, support, and encouragement was essential in writing this Note. And to my daughters, Maisie and Marcie, who inspire me each day to be my best self. Thank you, ladies, I love you.

**REPEAL THE DEFEND TRADE SECRET ACT: WHY
CONGRESS CAN'T RELY ON TRADE SECRET LAW
TO PROTECT AMERICA'S TRADE SECRETS**

*Steven Miller**

* J.D. Candidate, 2021, University of Georgia School of Law. I wish to thank Professor Joseph S. Miller for his invaluable comments and suggestions throughout the process. Also, I would like to dedicate this Note to “my ladies.” To my wonderful wife, Jess, whose unwavering love, support, and encouragement was essential in writing this Note. And to my daughters, Maisie and Marcie, who inspire me each day to be my best self. Thank you, ladies, I love you.

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I. INTRODUCTION

“[T]here are only ‘two categories’ of companies affected by trade secret theft — ‘[T]hose [sic] that know they’ve been compromised and those that don’t know yet.’”¹ Whether you imagine a cyber thief subverting a company’s network defenses or an employee selling secret information to a competitor, trade secret theft is a real threat. The epidemic has ballooned to such proportions— \$600 billion —that combatting trade secret theft enjoys bipartisan congressional support.² Despite Congress’s best efforts, there is no evidence the bleeding has slowed, much less stopped.³

By its very nature, trade secret protection requires a delicate balance, unlike traditional intellectual property. Within the intellectual property framework, trade secrets are an enigma. Traditional intellectual property law grants inventors and artists legal protection for *sharing* their innovations; however, the government grants protection to trade secret owners who *withhold* their innovations.⁴

The term “trade secret” likely brings to mind something like Coca-Cola’s secret formula; however, the law extends protection to less-obvious examples, such as a list of customer names or employee know-how.⁵

If you accept Attorney General Holder’s position that every company has been compromised from trade secret theft, then Coca-Cola deserves a “shout-out.” Hundreds of years after the popular syrup was invented, the secret formula remains a secret. The lengths Coca-Cola has gone to protect the formula is legendary.⁶ For example, the company retreated from India to avoid disclosing the formula to the government.⁷ Coca-Cola defied a court order requiring them to produce the formula during a lawsuit between the company and its bottlers.⁸ Coca-Cola illustrates the true value of its secret formula through its extraordinary efforts to protect it. Instead of relying on a legal safety net, the company itself guards its most precious treasure.

¹ Eric H. Holder, Jr., U.S. Att’y Gen., U.S. Dep’t of Just., Address at the Administration Trade Secret Strategy Rollout (Feb. 20, 2013), <https://www.justice.gov/opa/speech/attorney-general-eric-holder-speaks-administration-trade-secret-strategy-rollout>.

² COMM’N ON THE THEFT OF AM. INTELL. PROP., UPDATE TO THE IP COMMISSION REPORT 1, 3 (2017).

³ *Id.*

⁴ 18 U.S.C.A. § 1839(3).

⁵ *Id.*

⁶ Reuters, *Dispute over Coca-Cola’s Secret Formula*, N.Y. TIMES (May 3, 1993), <https://www.nytimes.com/1993/05/03/business/dispute-over-coca-cola-s-secret-formula.html>.

⁷ *Id.*

⁸ Associated Press, *Coca-Cola Refuses to Reveal Formulas*, L.A. TIMES (Sept. 11, 1985, 12:00 AM), <https://www.latimes.com/archives/la-xpm-1985-09-11-fi-7372-story.html>.

Not all companies are as successful as Coca-Cola. In 2016, thieves siphoned an estimated \$600 billion worth of trade secrets from United States companies; in response, Congress passed the Defend Trade Secrets Act (DTSA).⁹ The DTSA gives trade secret owners powerful tools to prevent their secrets from being disclosed and provides a private right of action for trade secret owners in federal court.¹⁰ Despite Congress's noble intentions, the DTSA fails to protect America's trade secrets and actually harms domestic innovation. This Note argues for the repeal of the DTSA.

Trade secret law attempts to protect unfair competitive advantages by preventing disclosure of the secret itself; however, companies rarely litigate over secrets like the Coca-Cola formula.¹¹ Instead, employers predominantly use trade secret litigation as a means to limit employee mobility and reduce legitimate competition.¹² As a result, trade secret law reduces innovation while also failing to deter trade secret theft. Trade secret owners themselves, not Congress or the courts, are in the best position to prevent their secrets from being stolen.

This Note briefly describes trade secret history, as well as the DTSA's legislative history and two legislative sources: the Uniform Trade Secrets Act (UTSA) and the Economic Espionage Act (EEA). Secondly, this Note describes DTSA's major provisions and analyzes how the law is used, and reviews how the courts interpret the Act. Finally, this Note argues that trade secret law disproportionately and negatively affects employees and small businesses. Congress must repeal DTSA, shift its paradigm from *preventing* trade secret theft, and focus on *actual* trade secret theft as an unfair method of competition.

II. BACKGROUND

A. TRADE SECRET HISTORY – AN INTELLECTUAL PROPERTY ENIGMA

Compared to traditional intellectual property law, trade secrets were born an oddity.¹³ Although some scholars trace trade secret law to the Roman empire,¹⁴ modern trade secret law emerged from common law roots in Massachusetts

⁹ COMM'N ON THE THEFT OF AM. INTELL. PROP., *supra* note 2, at 3.

¹⁰ 18 U.S.C.A. § 1836(b).

¹¹ See *infra* Section II(h).

¹² See *infra* Section III(b).

¹³ For example, the Constitution charges Congress with establishing the patent system, see U.S. CONST. art. I, § 8, cl. 8.

¹⁴ See A. Arthur Schiller, *Trade Secrets and the Roman Law; The Actio Servi Corrupti*, 30 COLUM. L. REV. 837, 838-39 (1930) (describing a cause of action protecting slave owners from third-parties who attempt to bribe or intimidate slaves into divulging confidential business information).

during the early 19th century.¹⁵ Trade secret law evolved from tort and contract doctrines, where conflicts usually involved a breach of a confidential relationship between employer and employee, or a trade secret owner and a bad-faith actor.¹⁶

The argument that trade secrets do not belong under the intellectual property “umbrella” at all is a strong one. Intellectual property law encourages public disclosure of scientific advancements in exchange for legal protection.¹⁷ The government incentivizes innovation by granting exclusive rights to inventors, for a limited duration, so the world can build upon the advancements and creativity of others.¹⁸

In contrast, as the name implies, trade secret owners are entitled to legal redress for *not* disclosing their innovations. “Indeed, the very assumptions underlying patent and copyright laws—that government-granted rights can serve to incentivize the creation and sharing of new ideas and expression—are diametrically opposed to the notion of keeping information secret to gain a competitive advantage.”¹⁹ A “trade secret owner is rewarded for keeping information . . . away from the public for an unlimited duration.”²⁰ Despite these differences, and as this Note highlights, trade secret law plays an important complementary role to patent law.

B. WHAT IS A TRADE SECRET?

Generally, a trade secret is anything not commonly known by those within the industry and derives independent economic value;²¹ however, a trade secret owner must take reasonable steps to protect the secret before they can assert a claim for misappropriation.²² Misappropriation claims require allegations that a defendant improperly acquired, used, or threatened to acquire or use, the trade secret.²³ Unlike a patent owner, a trade secret owner has no claim against a

¹⁵ *E.g.*, *Vickery v. Welch*, 36 Mass. (19 Pick.) 523, 527 (1837) (granting damages for trade secret misappropriation); *Taylor v. Blanchard*, 95 Mass. (13 Allen) 370, 375 (1866) (granting injunctive relief for threatened misappropriation).

¹⁶ See Mark A. Lemley, *The Surprising Virtues of Treating Trade Secrets as IP Rights*, 61 STAN. L. REV. 311, 316-17 (2008) (describing the evolution of trade secret doctrine from a contractual employment relationship and a series of common law torts: breach of confidence, breach of confidential relationship, common law misappropriation, unfair competition, unjust enrichment, and trespass).

¹⁷ Michael Risch, *Why Do We Have Trade Secrets?*, 11 MARQ. INTELL. PROP. L. REV. 1, 11 (2007).

¹⁸ *Id.*

¹⁹ *Id.* at 6.

²⁰ *Id.* at 11.

²¹ Lemley, *supra* note 16, at 317.

²² *Id.*

²³ *Id.*

defendant who obtained the same secret through independent research, or even reverse engineering.²⁴

Generally, trade secret issues arise in three contexts: “competitive intelligence, business transactions, and departing employees.”²⁵ Competitive intelligence describes attempts to acquire information about a competitor, and courts must determine if the conduct used was “improper.”²⁶ Usually, improper conduct invokes an independent legal wrong in the form of trespass, theft, bribery, and so on.²⁷

Trade secret litigation that stems from a business transaction or a departing employee typically involves a breach of a pre-existing relationship.²⁸ Improper conduct in this context is analogous to a breach of contract, where the trade secret owner asserts the defendant failed to abide by the terms of their agreement, implied or otherwise.²⁹

Distilled into its various pieces, trade secret law is merely a patchwork of various legal doctrines brought together under one umbrella. For this reason, some scholars label trade secret law as “parasitic” and question the need for trade secret law altogether.³⁰ Other scholars recognize “the economic benefits that flow from [trade secret law’s] existence, most notably incentives for businesses to spend less money protecting secret information . . . [and] as a means for the public to enforce populist norms about ‘commercial ethics.’”³¹

²⁴ See Risch, *supra* note 17, at 12 (“[T]rade secret laws allow for the protection of identical information if two parties independently discover the information.”); *id.* n.40 (“[R]everse engineering is commonly accepted as an exception to improper means . . .”).

²⁵ Lemley, *supra* note 16, at 318.

²⁶ *Id.* at 321.

²⁷ Risch, *supra* note 17, at 10. The most famous exception to this position is the *du Pont* case. See, e.g., *E.I. duPont deNemours & Co. v. Christopher*, 431 F.2d 1012 (5th Cir. 1970) (finding trade secret liability when aerial photographs were taken of a chemical plant under construction. While under construction, plaintiffs asserted the plant layout itself was a trade secret that was necessarily exposed due to construction. The court held that the flight, and photographs, did not break any law except for trade secret).

²⁸ Lemley, *supra* note 16, at 318.

²⁹ Risch, *supra* note 17, at 10.

³⁰ See Robert G. Bone, *A New Look at Trade Secret Law: Doctrine in Search of Justification*, 86 CAL. L. REV. 241, 245-47 (1998) (“Contrary to popular view, trade secret law is not essential to the protection of intellectual property; in fact, most of its benefits are better achieved through contract.”).

³¹ Risch, *supra* note 17, at 5-6.

C. TRADE SECRET PROTECTION V. PATENT PROTECTION

Given the choice, companies balance several considerations when deciding between trade secret protection and patent protection.³² For example, a trade secret owner's "right to sue is triggered only when the secret is wrongfully used or taken."³³ A patent owner enjoys a government-granted monopoly.³⁴ At the same time, patents are costly to acquire³⁵ and even more to protect;³⁶ whereas, the costs imposed on trade secret owners are theoretically proportional to the value of the secret itself.

"Judges and lawyers have sometimes reasoned that because trade secret law provides less protection to the inventor than patent law does, no rational person who makes a patentable invention would fail to seek a patent That reasoning is unsound."³⁷ Trade secret and patent law counter-balance each other in cost and duration. For example, the "disclosure required by patent law may enable a competitor to invent around the patent in less time than it would take him to discover the inventor's secret."³⁸ More salient, if a patent owner sued for infringement, "patent litigation [is] very costly . . . [and] a patentee puts his patent at risk of being held invalid;"³⁹ thus, the patentee endures the sunk cost of obtaining the patent to begin with. "One way to avoid infringement is not to

³² This is true where businesses have the option to choose between patent or trade secret protection. Patent protection is limited to a "process, machine, manufacture, or composition of matter." 35 U.S.C. § 101 (2012). Trade secret protection covers a wider swath of information. Thus, businesses only confront this choice when patentability overlaps with trade secret protection.

³³ Geraldine Szott Moohr, *The Problematic Role of Criminal Law in Regulating Use of Information: The Case of the Economic Espionage Act*, 80 N.C. L. REV. 853, 867-68 (2002).

³⁴ 35 U.S.C.A. § 154.

³⁵ See Stephen Key, *Don't File that Patent Yet. File A Provisional Patent Application First*, FORBES (Jan. 18, 2018), <https://www.forbes.com/sites/stephenkey/2018/01/08/dont-file-that-patent-yet-file-a-provisional-patent-application-first/#6f3cc7cb57fe> (noting that patent applications can "easily cost \$15,000-\$35,000"); see also Gene Quinn, *The Cost of Obtaining a Patent in the US*, IP WATCHDOG (Apr. 4, 2015), <https://www.ipwatchdog.com/2015/04/04/the-cost-of-obtaining-a-patent-in-the-us/id=56485/> (depending on the complexity of the invention, "attorneys' fees through filing can certainly go well above \$15,000").

³⁶ Malathi Nayak, *Cost of Patent Infringement Litigation Falling Sharply*, BIG L. BUS. (Aug. 11, 2017), <https://biglawbusiness.com/cost-of-patent-infringement-litigation-falling-sharply> (noting that the median cost for cases "with \$1 million to \$10 million at stake declined 47 percent from 2015 to \$1.7 million in 2017, according to the American Intellectual Property Law Association's '2017 Report of the Economic Survey' obtained by Bloomberg BNA. . . . In cases with below \$1 million at stake, the median cost fell . . . to \$800,000 in 2017. . . .").

³⁷ WILLIAM M. LANDES & RICHARD A. POSNER, *THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW* 356 (Harv. Univ. Press ed. 2003).

³⁸ *Id.* at 357.

³⁹ *Id.*

patent.”⁴⁰ Continuing on the theme of patent costs, an inventor may believe their invention is only of modest value and not worth the time and fees a patent requires. In that instance, trade secret protection is an enticing alternative where the cost of protecting the secret would be proportional to its modest value.⁴¹

Trade secret protection fills gaps created by the patent scheme. For example, obtaining a twenty-year monopoly for an invention that technology is likely to outpace in five years is sub-optimal. Considered together, trade secret law and patent law “reflect the fact that patent law cannot be tailored finely enough to cover every [invention].”⁴²

As this Note will show, the Defend Trade Secrets Act significantly increased trade secret liability, which may push businesses away from the patent process.⁴³ Initially, this appears to be a boon for small businesses and startups who may be deterred by patent costs; however, trade secret law is more damaging to smaller firms because of its implications for employee mobility.⁴⁴ Because businesses use trade secret law primarily to control employee know-how and limit mobility, the law actively reduces innovation.⁴⁵

D. EVOLUTION OF THE DEFEND TRADE SECRETS ACT

Although born from the common law,⁴⁶ modern trade secret law was predominantly codified by state legislation, until Congress passed the DTSA.⁴⁷ The majority of states have adopted the Uniform Trade Secrets Act, in various forms, as the basis for their trade secret law.⁴⁸ At the federal level before DTSA, the Attorney General was solely responsible for protecting American trade secrets from economic espionage.⁴⁹ The escalating instances of trade secret theft, and the perception that state-level trade secret law is inadequate to mitigate the threat, led Congress to pass DTSA in order to protect America’s competitive advantage—innovation.⁵⁰ “Trade secrets are an integral part of a company’s competitive advantage in today’s economy, and with the increased digitization of

⁴⁰ *Id.*

⁴¹ *Id.*

⁴² *Id.* at 359.

⁴³ See *infra*, Section II(c).

⁴⁴ See *infra*, Section III(b).

⁴⁵ *Id.*

⁴⁶ See Lemley, *supra* note 16 and accompanying text.

⁴⁷ John Cannan, *A (Mostly) Legislative History of the Defend Trade Secrets Act of 2016*, 109 L. LIBR. J. 363, 368 (2017).

⁴⁸ *Id.*

⁴⁹ Economic Espionage Act, 18 U.S.C. § 1836(a) (1996).

⁵⁰ Cannan, *supra* note 47, at 365-366.

critical data and increased global trade, this information is highly susceptible to theft.”⁵¹

The Defend Trade Secrets Act amends the Economic Espionage Act (EEA), but it also draws substantially from the Uniform Trade Secrets Act (UTSA) that most states have implemented in some form.⁵² Thus, one cannot fully understand the DTSA without understanding its two primary sources.

1. *The Uniform Trade Secrets Act (UTSA)*

The Uniform Trade Secrets Act is the result of ten years of research and labor from the Uniform Law Commission.⁵³ In response to uneven development of state trade secret law, as well as the inherent conflict between the goal of trade secrets (to prevent the distribution of innovation) and the goal of patent law (to encourage the distribution of innovation), the Special Committee on the Uniform Trade Secrets Act formed on February 17, 1968.⁵⁴ The Special Committee sought to establish a compromise between patents and trade secrets, as well as define the precise contours of trade secret law that litigants and courts could effectively rely upon.⁵⁵ The Special Committee concluded its work in 1979, when the Uniform Law Commission recommended UTSA for enactment.⁵⁶ UTSA would undergo minor clarifying amendments in 1985, but has otherwise remained intact.⁵⁷ As of this writing, Puerto Rico, Virgin Islands, District of Columbia, and forty-eight states have adopted the UTSA—most recently, Massachusetts in 2018.⁵⁸ Although UTSA has been widely adopted, not every state adopted the statute in its entirety, and not every state court has interpreted its provisions in the same way.⁵⁹ This variability affects multi-state companies most, since state law provided the only private right of action for trade secret theft until the Defend Trade Secrets Act passed in 2016.⁶⁰

⁵¹ H.R. REP. NO. 114-529, at 3 (2016).

⁵² Cannan, *supra* note 47, at 368.

⁵³ *Id.*

⁵⁴ UNIF. TRADE SECRETS ACT commission’s prefatory note to 1985 amendments (UNIF. L. COMM’N 1985), <https://www.uniformlaws.org> (search in search bar for “Trade Secrets Act”; then choose “Trade Secrets Act” hyperlink; then click “Documents” tab; then click “Final Act, with comments” hyperlink).

⁵⁵ *Id.*

⁵⁶ *Id.*

⁵⁷ *Id.*

⁵⁸ See *Trade Secrets Act*, UNIF. L. COMM’N, <https://www.uniformlaws.org/committees/community-home?communitykey=3a2538fb-e030-4e2d-a9e2-90373dc05792&tab=groupdetails> (last visited Nov. 1, 2020).

⁵⁹ See Cannan, *supra* note 47, at 368.

⁶⁰ *Id.* at 365-66.

2. *The Economic Espionage Act*

By 1996, foreign and domestic trade secret theft incidents was on the rise.⁶¹ Notable at this time, Congress considered foreign intellectual property theft a national security concern that had no meaningful remedy at law.⁶² Congress responded to this threat with the Economic Espionage Act, a criminal statute intended to arm prosecutors with the legal weapons necessary to protect U.S. interests.⁶³ While deliberating, Congress actually considered adding a private cause of action to the original EEA, but some legislators expressed concern combining private civil remedies into a criminal bill.⁶⁴ Congress intended to revisit this idea later in the term,⁶⁵ but it would be twenty years before Congress fulfilled its intention.

[The Economic Espionage Act] will help us crack down on acts like software piracy and copyright infringement that cost American businesses billions of dollars in lost revenues . . . [and] makes the theft of misappropriation of trade secrets a Federal crime. . . . [The EEA also] strengthens protection for our national information infrastructure by eliminating gaps in the criminal laws covering attacks against computers and the information they contain. . . . This Act will protect the trade secrets of all businesses operating in the United States . . . from economic espionage and trade secret theft . . .⁶⁶

Despite these lofty expectations, the EEA produced only 125 indictments and ten convictions.⁶⁷ Meanwhile, in 2012, the Director of the National Security Agency, General Keith Alexander, declared the loss of “industrial information and intellectual property through cyber espionage . . . the ‘greatest transfer of wealth in history’”.⁶⁸ In 2013, an independent and bipartisan commission estimated United States businesses lost over \$300 billion annually from

⁶¹ Robin L. Kuntz, Note, *How Not to Catch a Thief: Why the Economic Espionage Act Fails to Protect American Trade Secrets*, 28 BERKLEY TECH. L.J. 901, 903 (2013).

⁶² *Id.* at 904.

⁶³ *Id.* at 904-05.

⁶⁴ Cannan, *supra* note 47, at 369.

⁶⁵ *Id.*

⁶⁶ William J. Clinton, U.S. President, Remarks upon Signing of the Economic Espionage Act, Pub. L. No. 104-294 (Oct. 11, 1996), <https://www.govinfo.gov/content/pkg/WCPD-1996-10-14/pdf/WCPD-1996-10-14-Pg2040-2.pdf>.

⁶⁷ Joseph Brees, *Trade Secrets Go Federal – Parade to Follow*, 12 J. OF BUS. & TECH. L. 277, 282 (2017).

⁶⁸ Josh Rogin, *NSA Chief: Cybercrime Constitutes the “Greatest Transfer of Wealth in History”*, FOREIGN POL’Y (July 9, 2012), <https://foreignpolicy.com/2012/07/09/nsa-chief-cybercrime-constitutes-the-greatest-transfer-of-wealth-in-history/>.

intellectual property theft.⁶⁹ Four years later, the same commission estimated that the value of trade secret theft could be as high as \$600 billion.⁷⁰ The EEA failed to deter, punish, or even slow industrial espionage, and Congress noticed.

3. Congress Takes Action: The Defend Trade Secrets Act

DTSA's origins stretch back to 2012, when Senators Orrin Hatch and Christopher Coons led the initial reform effort.⁷¹ That bill eventually died,⁷² but the House resurrected the effort in 2014, which became the basis for DTSA in the Senate.⁷³ Since 2012, only 1% to 3% of proposed legislation has been enacted into law.⁷⁴ The Defend Trade Secrets Act (DTSA) not only survived the congressional grind, but also did so relatively quickly for major legislation.⁷⁵ Buoyed by bipartisan support⁷⁶ and a \$1.25 million lobbying effort from private industries,⁷⁷ DTSA became law on May 11, 2016, 287 days after its introduction in the Senate.⁷⁸

Congress criticized America's inadequate trade secret protections as justification for the Defend Trade Secrets Act. Despite economic espionage being a "top priority for Federal law enforcement," limited resources in the Federal Bureau of Investigation (FBI) and Department of Justice (DOJ) prohibited effective enforcement of the Economic Espionage Act.⁷⁹ Additionally, Congress sympathized with trade secret owners who relied on state courts to respond to multi-national trade secret theft.⁸⁰ In particular, state-

⁶⁹ COMM'N ON THE THEFT OF AM. INTELL. PROP., THE IP COMMISSION REPORT 2 (2013).

⁷⁰ COMM'N ON THE THEFT OF AM. INTELL. PROP., *supra* note 2, at 1.

⁷¹ Cannan, *supra* note 47, at 366.

⁷² *Id.*

⁷³ *Id.* at 367.

⁷⁴ *Statistics and Historical Comparison*, GOVTRACK, <https://www.govtrack.us/congress/bills/statistics> (last visited Nov. 1, 2020).

⁷⁵ See Cannan, *supra* note 47, at 363.

⁷⁶ Brittany S. Bruns, Note, *Criticism of the Defend Trade Secrets Act of 2016: Failure to Preempt*, 32 BERKELEY TECH. L.J. 469 n.3 (2017) (noting that DTSA received 410 "ayes", 2 "nays", and 21 no-votes in the House, and DTSA received 87 "ayes", 0 "nays", and 13 no-votes in the Senate).

⁷⁷ Sharon K. Sandeen & Christopher B. Seaman, *Toward a Federal Jurisprudence of Trade Secret Law*, 32 BERKELEY TECH. L.J. 829, 855 (2017). Most of this lobbying came from large private companies, such as Microsoft and Boeing; however, small business reportedly accounts for 60% to 80% of American jobs; see Kaylee Beauchamp, Note, *The Failures of Federalizing Trade Secrets: Why the Defend Trade Secrets Act of 2016 Should Preempt State Law*, 86 MISS. L.J. 1031, 1068-69 (2017).

⁷⁸ See *S.1890 - Defend Trade Secrets Act of 2016*, U.S. CONGRESS, <https://www.congress.gov/bill/114th-congress/senate-bill/1890/all-actions?q=%7B%22search%22%3A%5B%22defend+trade+secrets+act%22%5D%7D&cr=1&overview=closed#tabs> (last visited Nov. 2, 2020).

⁷⁹ S. REP. NO. 114-220, at 3 (2016); H.R. REP. NO. 114-529, at 4 (2016).

⁸⁰ H.R. REP. NO. 114-529, at 4.

implemented UTSA variations, although relatively minor, nonetheless led to different judicial interpretations that were case-dispositive.⁸¹

“Protecting trade secrets has become increasingly difficult given ever-evolving technological advancements. Thieves are using increasingly sophisticated methods to steal trade secrets and the growing use of technology and cyberspace has made trade secret theft detection particularly difficult.”⁸² Congress intends to give trade secret owners “redress in Federal court, just as owners of other forms of intellectual property . . . can seek remedies in Federal court for violations of their rights. . . . This narrowly drawn legislation will *provide a single, national standard* for trade secret misappropriation with *clear rules and predictability* for everyone involved.”⁸³ Just like the EEA, the DTSA faces lofty goals.

E. DTSA PROVISIONS

Before assessing DTSA’s performance against Congress’s objectives, it is imperative to understand the statute’s provisions. The following sections walk through DTSA’s major provisions and Congress’s stated intentions behind them.

1. *Unifying Trade Secret Definitions*

Before its passage, legal scholars criticized the draft versions of the DTSA for not aligning statutory definitions with the UTSA. Scholars argued these differences would undermine Congress’s intent to “harmonize” the trade secret laws.⁸⁴ Perhaps in response to this criticism, Congress amended DTSA’s definitions so they mirror the UTSA. The DTSA defines a “trade secret” as:

All forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled or memorialized physically, electronically, graphically, photographically, or in writing if:

⁸¹ S. REP. NO. 114-220, at 2-3. *See, e.g.*, *Katch, LLC v. Sweetser*, 143 F. Supp. 3d 854, 865 (D. Minn. 2015) (determining whether Minnesota or California law applied would be dispositive since the case involved a claim applying the “inevitable disclosure doctrine,” which California does not recognize).

⁸² S. REP. NO. 114-220, at 2.

⁸³ H.R. REP. NO. 114-529, at 2, 6 (emphasis added).

⁸⁴ *See* Christopher B. Seaman, *The Case Against Federalizing Trade Secrecy*, 101 VA. L. REV. 317, 361-62 (2015).

(a) the owner thereof has taken reasonable measures to keep such information secret; and

(b) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information.⁸⁵

Simply put, the DTSA makes clear that “nearly any type of information can qualify as a trade secret, as long as the owner took reasonable steps to keep it a secret and the information derives economic value from its secrecy.”⁸⁶ This definition closely aligns with the UTSA. The EEA “trade secret” definition required the secret to be not readily ascertainable through proper means by “the public”; this variation from the UTSA caused some courts to apply meaningful distinction to this difference.⁸⁷ In the DTSA, Congress clarified that it “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.”⁸⁸ The DTSA also included language explicitly declaring reverse engineering and independent derivation as proper means of acquiring a trade secret.⁸⁹

2. *DTSA Statute of Limitations*

Both the DTSA and the UTSA have a three-year statute of limitations period.⁹⁰ Congress did this despite “a number of States” enacting different limitations periods than the UTSA.⁹¹ Additionally, DTSA’s three-year limitations period is a reduction from the five-year limitations period afforded by the EEA.⁹² Congress also significantly increased the criminal penalties for trade secret theft in the DTSA amendment.⁹³ Given that Congress admitted limited resources prohibited the Department of Justice from enforcing one of its

⁸⁵ 18 U.S.C.A. § 1839(3) (Westlaw through Pub. L. No. 116-182).

⁸⁶ Joseph D. Mornin, *What You Need to Know About the Defend Trade Secrets Act*, 28 INTELL. PROP. & TECH. L.J. 20, 21 (2016).

⁸⁷ H.R. REP. NO. 114-529, at 208.

⁸⁸ *Id.*

⁸⁹ See Cannan, *supra* note 47, at 369-70.

⁹⁰ H.R. REP. NO. 114-529, at 207.

⁹¹ *Id.* See also Bruns, *supra* note 76, at 487-88 (identifying states with different limitation periods: Alabama (two years); Maine, Nebraska, Ohio (four years); Georgia, Illinois, Missouri (five years); Vermont (six years)).

⁹² H.R. REP. NO. 114-529, at 207.

⁹³ See Cannan, *supra* note 47, at 379-80.

“top priorit[ies],”⁹⁴ reducing the statute of limitations period while increasing criminal penalties is a curious decision. Combined, these factors encourage more collaboration between the government and trade secret owners. Congress clearly expects private actions will lead, not supplement, public enforcement. This is a good strategy so long as the private business interest aligns with the government.

3. *D TSA's Private Right of Action*

The most dramatic amendment provides the first federal private right of action for trade secret owners. “An owner of a trade secret that is misappropriated may bring a civil action under this subsection if the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce.”⁹⁵ This provision replaced language in the EEA that gave the Attorney General exclusive access to federal courts.⁹⁶

Perhaps the most impactful DTSA provision though, is actually a hold-over from the EEA. “[T]his chapter shall not be construed to preempt or displace any other remedies, whether civil or criminal, provided by United States Federal, State, commonwealth, possession, or territory law for the misappropriation of a trade secret”⁹⁷ No preemption means trade secret owners have the option to pursue either a state action, federal action, or both simultaneously.⁹⁸

4. *DTSA Civil Remedies*

DTSA gives trade secret owners two civil remedies: injunctive relief and monetary damages.⁹⁹ Congress carefully crafted the injunctive language over concerns about DTSA's impact on employee mobility.¹⁰⁰ Injunctive relief is intended to “prevent any actual or threatened misappropriation.”¹⁰¹ Injunctive relief is commonly raised in the context of an employee leaving for a competing firm.¹⁰² Employers also use injunctive relief proactively through non-compete agreements that limit an employee's future options.¹⁰³ In either situation, injunctive relief is meant to prevent trade secret disclosure, but at a cost to employee mobility.

States have varying levels of tolerance for using trade secret law as a method to limit employee mobility. For example, the “inevitable disclosure doctrine,”

⁹⁴ H.R. REP. NO. 114-529, at 198; S. REP. NO. 114-220, at 3 (2016).

⁹⁵ 18 U.S.C.A. § 1836(b) (Westlaw through Pub. L. No. 116-182).

⁹⁶ 18 U.S.C.A. § 1831 (Westlaw through Pub. L. No. 116-182).

⁹⁷ 18 U.S.C.A. § 1838 (Westlaw through Pub. L. No. 116-182).

⁹⁸ *Id.*

⁹⁹ § 1836(b)(3) (Westlaw).

¹⁰⁰ S. REP. NO. 114-220, at 8-9; H.R. REP. NO. 114-529, at 206-207.

¹⁰¹ § 1836(b)(3)(A)(i) (Westlaw).

¹⁰² Lemley, *supra* note 16, at 318.

¹⁰³ See *infra*, Section III(b).

made famous in *PepsiCo, Inc. v. Redmond*, stands as an example of a very employer-friendly application of trade secret law.¹⁰⁴ In that case, Pepsi successfully argued for injunctive relief against a former senior executive who accepted a position with Pepsi's competitor, Quaker Oats.¹⁰⁵ Pepsi never alleged that their former employee stole trade secrets, used trade secrets, or otherwise misappropriated trade secrets as defined by the statute.¹⁰⁶ Instead, Pepsi argued their former employee, even acting in good-faith, would *inevitably rely* on intimate knowledge of Pepsi's marketing, distribution, and pricing strategy in their new position.¹⁰⁷ Interpreting the Illinois Trade Secret Act (ITSA), derived substantially from the UTSA, the Seventh Circuit agreed with Pepsi and upheld the injunction granted by the district court against Pepsi's former employee.¹⁰⁸ In stark contrast to Illinois, California has explicitly rejected the inevitable disclosure doctrine and even refuses to enforce non-compete agreements.¹⁰⁹

Congress, sensitive to these disparate views, sought to dodge this hornet nest by not preempting state law, and explicitly provided protections for employees within DTSA's provisions. Under DTSA, a court may grant an injunction so long as:

(1) the order does not “prevent a person from entering into an employment relationship, and that conditions placed on such employment shall be based on evidence of threatened misappropriation and not merely on the information the person knows;”¹¹⁰ or

(2) the injunction otherwise does not “conflict with an applicable State law prohibiting restraints on the practice of a lawful profession, trade, or business.”¹¹¹

Therefore, since DTSA does not preempt state law, and injunctive relief is granted so long as it does not conflict with state law, Congress intended for these provisions to “coexist” with local state law.¹¹²

DTSA also allows the court, in “exceptional circumstances,” to proscribe a royalty paid to the trade secret owner whenever an injunction would be

¹⁰⁴ See *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262 (7th Cir. 1995).

¹⁰⁵ *Id.* at 1263.

¹⁰⁶ *Id.* at 1269-70.

¹⁰⁷ *Id.* at 1270.

¹⁰⁸ *Id.* at 1271.

¹⁰⁹ See *Whyte v. Schlage Lock Co.*, 101 Cal. App. 4th 1443 (2002).

¹¹⁰ 18 U.S.C.A. § 1836(b)(3)(A)(i)(I) (Westlaw through Pub. L. No. 116-182).

¹¹¹ *Id.* § 1836(b)(3)(A)(i)(II).

¹¹² S. REP. NO. 114-220, at 9 (2016).

“inequitable.”¹¹³ Royalties are also available in lieu of other monetary damages measured by the actual loss of the trade secret, including any unjust enrichment the defendant has realized above the value of that loss.¹¹⁴ Congress though, prefers “first [to] halt the misappropriator’s use and dissemination” of the secret, followed by the award of “appropriate damages.”¹¹⁵ Finally, a trade secret owner may seek “exemplary damages” worth twice as much as the compensatory damages awarded “if the trade secret is willfully and maliciously misappropriated.”¹¹⁶

5. *Detering Trade Secret Trolls*

The DTSA expands trade secret owners’ available forums, and significantly increases a defendant’s liability. This naturally creates an environment for “trolls.” Troll is a term used to refer to litigants who bring frivolous claims hoping to leverage the significant cost of litigation (in time and money) and extract a valuable settlement.¹¹⁷ Modeled after the UTSA, Congress attempts to deter trolls with a provision that grants attorney fees whenever a misappropriation claim is made in bad faith.¹¹⁸

6. *Ex Parte Seizures*

DTSA’s most innovative provision, if not the most impactful, is the statutory authority granted to courts for the “seizure of property necessary to prevent the propagation or dissemination of the trade secret.”¹¹⁹ This provision is based on the Lanham Act.¹²⁰ The Lanham Act, which generally governs trademark protections, uses *ex parte* seizures primarily for retrieving counterfeit goods.¹²¹ Although innovative, this provision is also controversial in the context of trade secret law because the government seizes a defendant’s property without providing advance notice.¹²² Congress limited *ex parte* seizure to “extraordinary circumstances,”¹²³ and its use is subject to numerous requirements.¹²⁴ Despite significantly limiting its use, Congress expected this provision would be an

¹¹³ § 1836(b)(3)(A)(iii) (Westlaw).

¹¹⁴ *Id.* § 1836(b)(3)(B).

¹¹⁵ S. REP. NO. 114-220, at 9.

¹¹⁶ § 1836(b)(3)(C) (Westlaw).

¹¹⁷ David S. Levine & Sharon K. Sandeen, *Here Come the Trade Secret Trolls*, 71 WASH. & LEE L. REV. 230, 234 (2015).

¹¹⁸ *Id.* § 1836(b)(3)(D).

¹¹⁹ *Id.* § 1836(b)(2)(A)(i).

¹²⁰ 15 U.S.C. § 1116(d) (Westlaw through Pub. L. No. 116-182).

¹²¹ Mornin, *supra* note 86, at 21.

¹²² *Id.* at 21-22.

¹²³ § 1836(b)(2)(A)(i) (Westlaw).

¹²⁴ *Id.* § 1836(b)(2)(A)(ii).

important enforcement tool and required the Federal Judicial Center to publish a “best practices” report two years after DTSA’s enactment.¹²⁵

Much like the EEA before it, DTSA is expected to deliver on very lofty goals. Congress amended the EEA “largely in response to fears of misappropriation of U.S. trade secrets by foreign actors.”¹²⁶ DTSA, however, is also supposed to “harmonize” state law differences by “provid[ing] a single, national standard for trade secret misappropriation.”¹²⁷ Immediately after Congress enacted DTSA, critics offered their predictions on how likely DTSA would achieve its goals. The next section walks through the major critiques of trade secret law generally, and then the DTSA specifically.

F. TRADE SECRET LAW CRITICISMS

1. *Cyber Espionage*

Despite strong bipartisan support in Congress, and “support from the intellectual property bar, including the Intellectual Property Law Section of the American Bar Association and the American Intellectual Property Law Association,”¹²⁸ DTSA received mixed reactions from the academic legal community. Law professors lobbied against DTSA’s passage, arguing that its provisions do not serve the underlying goals of the legislation:¹²⁹ (a) to create a federal civil cause of action, (b) establish a uniform and predictable trade secret law, and (c) promote innovation by protecting American businesses from misappropriation.¹³⁰

The legislative history implies Congress intended for the DTSA to combat cyber espionage from foreign adversaries.¹³¹ Cyber espionage is partially responsible for the “greatest transfer of wealth” in history,¹³² directly targeting

¹²⁵ Defend Trade Secrets Act of 2016, Pub. L. No. 114-153, § 6, 130 Stat. 376, 384 (2016). The Federal Judicial Center completed the report in June 2017, which is available at: https://www.fjc.gov/sites/default/files/2017/DTSA_Best_Practices_FJC_June_2017.pdf.

¹²⁶ Mornin, *supra* note 86, at 22.

¹²⁷ S. REP. NO. 114-220, at 14 (2016).

¹²⁸ Sandeen & Seaman, *supra* note 77, at 855-56.

¹²⁹ *Id.* at 850-851 (arguing that the amendment does not “address the problem of cyberespionage” and creates the possibility for “abuse of DTSA litigation for anticompetitive purposes”).

¹³⁰ Beauchamp, *supra* note 77, at 1067.

¹³¹ *Id.*; see also Levine & Sandeen, *supra* note 117, at 233-34 (quoting Senator Coons’s press release, “In today’s electronic age, trade secrets can be stolen with a few keystrokes, and increasingly, they are stolen at the direction of a foreign government or for the benefit of a foreign competitor. These losses put U.S. jobs at risk and threaten incentives for continued investment in research and development. Current federal criminal law is insufficient.”).

¹³² Rogin, *supra* note 68.

American trade secrets.¹³³ DTSA critics argue that this legislation does not address that threat, and any focus on cyber espionage “may be misplaced.”¹³⁴

There is substantial evidence that supports the notion trade secret law is ill-suited, or perhaps misused, as a means to deter or punish cyber espionage.¹³⁵ A 2010 study from O’Melveny & Myers LLP revealed that 93 percent of state trade secret cases “involved an insider, either an employee or a business partner. The percentage was 85 percent in federal cases.”¹³⁶ In another study, “the Economic Espionage Act echo[ed] these numbers. [The study] reviewed all 124 prosecutions conducted by the government between the law’s enactment in 1996 and 2012. . . . [I]n more than 90 percent of cases, the defendant was an insider, either an employee or business partner.”¹³⁷ Even in the midst of growing cyber theft, the majority of trade secret litigation implicated employees who have access to the information by virtue of their position within the company.¹³⁸ In this way, strengthening trade secret protection only strengthens an employer’s leverage over employees. This advances policies that limit employee mobility and reduces marketplace competition while doing little to address cyber misappropriation.¹³⁹

2. Trade Secrets Should Not Be Federalized

The legal academic community also criticized Congress’s desire to federalize trade secrets.¹⁴⁰ As mentioned earlier in this Note, trade secret law draws from other legal areas, such as tort and contracts, which are traditionally state law issues.¹⁴¹ Federalizing trade secrets may promote uniformity in the law, but it also limits competition between the states for businesses and labor.¹⁴² Justice Brandeis famously explained federalism’s benefits as a means for “states to ‘serve as a laboratory[] and try novel social and economic experiments’ . . . to address the same issue or problem, ‘from which the best solution may ultimately

¹³³ “Cyber espionage” means “[t]he use of computer networks to gain illicit access to confidential information, typically that held by a government or other organization.” *Cyberspionage*, LEXICO, <https://www.lexico.com/en/definition/cyberspionage> (last visited Nov. 1, 2020). Cyber espionage does not have a formal definition in Black’s Law Dictionary, nor Merriam-Webster.

¹³⁴ Beauchamp, *supra* note 77, at 1067.

¹³⁵ See generally Zoe Argento, *Killing the Golden Goose: The Dangers of Strengthening Domestic Trade Secret Rights in Response to Cyber-Misappropriation*, 16 YALE J.L. & TECH. 172 (2014).

¹³⁶ *Id.* at 220-21 (describing a study conducted by O’Melveny & Myers LLP in 2010, where the firm studied 394 federal trade secret cases between 1950-2008, and 358 state trade secret cases between 1995-2009).

¹³⁷ *Id.* at 221.

¹³⁸ *Id.* at 221-22.

¹³⁹ *Id.* at 224-28.

¹⁴⁰ See Seaman, *supra* note 84, at 365-69.

¹⁴¹ *Id.* at 364.

¹⁴² *Id.* at 365.

emerge.”¹⁴³ A federal alternative that primarily impacts employee mobility and marketplace competition hampers the states’ ability to compete for labor and business, which this Note addresses in more detail later.

Turning away from trade secret public policy goals, specific criticism of the Defend Trade Secrets Act provisions generally falls into two buckets: no state law preemption, and the *ex parte* provision.

G. DTSA CRITICISM

1. DTSA’s Failure to Preempt State Law

As discussed earlier, Congress intended for the DTSA to “co-exist” alongside State UTSA laws¹⁴⁴ but also “harmonize” the various laws.¹⁴⁵ This is explicit in the DTSA’s language,¹⁴⁶ as well as its legislative history.¹⁴⁷ DTSA supporters and critics predicted that the failure to preempt state law would result in less harmonization, increased internal and litigation costs, uneven application of the law, and anticompetitive abuses against small businesses.¹⁴⁸

Without preemption, DTSA does not “harmonize” the law, but instead “simply adds another layer of protection over the patchwork of state laws.”¹⁴⁹ Although Congress recognized that the minor differences in state laws sometimes proved to be dispositive,¹⁵⁰ Congress merely provided trade secret owners with more litigation options and simultaneously introduced uncertainty for potential defendants.¹⁵¹ “Defendants do not get to decide whether they will be sued under federal or state law.”¹⁵² DTSA incentivizes forum shopping, and shifts “the balance of litigious power toward plaintiffs and away from defendants.”¹⁵³ By adding another layer of variability, DTSA makes it more difficult for potential defendants to understand their scope of liability.¹⁵⁴ Adding

¹⁴³ *Id.* (Brandeis, J., dissenting)(quoting *New State Ice Co. v. Liebmann*, 285 U.S. 262, 311 (1932)).

¹⁴⁴ S. REP. NO. 114-220, at 9 (2016).

¹⁴⁵ H.R. REP. NO. 114-529, at 196 (2016).

¹⁴⁶ 18 U.S.C.A. § 1836(b)(3)(A)(i)(Westlaw through Pub. L. No. 116-182).

¹⁴⁷ H.R. REP. NO. 114-529, at 196 (2016).

¹⁴⁸ Beauchamp, *supra* note 77, at 1067-68.

¹⁴⁹ Bruns, *supra* note 76, at 492.

¹⁵⁰ Sandeen & Seaman, *supra* note 77.

¹⁵¹ *See* Bruns, *supra* note 76, at 493 (discussing examples where a plaintiff may choose Ohio state law over the DTSA because Ohio law offers punitive damages three times as much as the compensatory damages. DTSA allows only twice as much, whereas Alabama limits punitive damages to the same amount as compensatory damages.).

¹⁵² *Id.* at 494.

¹⁵³ *Id.* at 494-496.

¹⁵⁴ *Id.* at 493.

complexity also increases litigation costs, which critics predicted would chill “innovation and . . . growth of the American economy.”¹⁵⁵

Preemption, presumably, cures these ills.¹⁵⁶ Preemption limits a plaintiffs’ incentive for forum shopping and mitigates increased legal costs for businesses who need to comply with both state and federal legislation.¹⁵⁷ However, this also means the DTSA no longer “coexists” alongside state laws. Instead, Congress must take an affirmative stance on controversial trade secret issues, such as the inevitable disclosure doctrine.

2. *DTSA Invites Trade Secret Trolls*

DTSA critics also predicted the rise of the trade secret “troll.”¹⁵⁸ As mentioned earlier, a troll “initiat[es] lawsuits designed only to extract settlement payments or massive damage awards from scared defendants. . . .”¹⁵⁹ The term comes from the well-known patent troll.¹⁶⁰ Trade secret trolls can “cause the same drag on innovation and job growth,”¹⁶¹ particularly because “acquiring trade secret status and initiating trade secret lawsuits – which can include separate claims involving covenants not to compete, nondisclosure agreements, and labor mobility – are significantly less expensive and time-consuming than similar activity in the patent space”¹⁶² In addition to these relatively low barriers to file suit, the DTSA gives a potential trade secret troll the “extraordinary power to seize a defendant’s assets prior to judgment,”¹⁶³ which disproportionately shifts power to the plaintiff and risks unnecessary harm to “businesses, including many start-ups . . . wrongfully accused of trade secret misappropriation.”¹⁶⁴ Increased reward for reduced effort invites weak, if not frivolous, claims. Of course, some scholars believe the trade secret troll threat is overblown based on fundamental differences between trade secrets and patents.¹⁶⁵

¹⁵⁵ Beauchamp, *supra* note 77, at 1068.

¹⁵⁶ *Id.* at 1066-67 (“Yet, if the Act preempted state laws, then it would likely cause both the proponents and critics of the DTSA to be equally content, and it would lessen the potential negative effects on trade secret jurisprudence, the efficiency of the courts, and on business and innovation that may occur”).

¹⁵⁷ *Id.* at 1069-72; *see also* Bruns, *supra* note 76, at 499-500 (arguing that preemption would decrease choice of law disputes and provide certainty to potential defendants).

¹⁵⁸ Levine & Sandeen, *supra* note 117.

¹⁵⁹ *Id.* at 234.

¹⁶⁰ 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, 1061-1062 (2016).

¹⁶¹ *Id.*

¹⁶² *Id.*

¹⁶³ *Id.*

¹⁶⁴ *Id.* at 235.

¹⁶⁵ *See generally* Pooley, *supra* note 160; *see also* Brees, *supra* note 67, at 279-86 (arguing that trade secrets require some level of intent, and that *ex parte* seizure is limited to extraordinary circumstances: all points that mitigate a trade secret troll’s success).

3. *Ex Parte Seizure Inappropriate in Trade Secret Context*

The *ex parte* provision allows courts, in extraordinary circumstances, to seize property from a defendant without notice in order to prevent trade secrets from being disclosed or used.¹⁶⁶ Congress preferred to prevent information disclosure and hoped this seizure remedy would significantly contribute towards that goal.¹⁶⁷ Rather than a tool to protect property though, some argue the *ex parte* provision is a weapon that “legally permits large corporations with sizable resources to silence less financially robust competitors, mostly in the form of ex-employees.”¹⁶⁸ By allowing *ex parte* seizure of a defendant’s property, Congress arguably allows the court to seize property without proper due process of law.¹⁶⁹

As mentioned earlier, trademark owners rely on *ex parte* seizures recovering counterfeit goods.¹⁷⁰ “[A] court will not even entertain the idea of granting an *ex parte* seizure order if allegedly counterfeit goods do not contain a registered trademark.”¹⁷¹ A registered trademark gives the judge comfort that an independent examiner assessed the trademark’s protectability.¹⁷² There is no independent examination for trade secrets.¹⁷³ Independent review and trademark registration gives the public “constructive notice that they may be infringing on an individual or entity’s property rights There is no such notice in the trade secrets context.”¹⁷⁴ Thus, “judges are forced to examine ‘the existence of a trade secret as a matter of first impression, without any guidance from an independent government examiner.’”¹⁷⁵ The Federal Judicial Center confirmed the difficulty judges face when confronted with an *ex parte* request.¹⁷⁶

¹⁶⁶ 18 U.S.C.A. § 1836(b)(2)(A)(i) (Westlaw through Pub. L. No. 116-182).

¹⁶⁷ *Id.* § 1836(b)(3)(A)(i)(II).

¹⁶⁸ Lauren Rayner Davis, Note, *Secrecy for the Sake of It: The Defend Trade Secrets Act: A Devolving Global Market Based on the Legal Protection of Over-Secrecy*, 83 BROOK. L. REV. 359, 363 (2017).

¹⁶⁹ *Id.*

¹⁷⁰ S. REP. NO. 114-220, at 9 (2016).

¹⁷¹ Davis, *supra* note 168, at 377.

¹⁷² *Id.*

¹⁷³ *Id.*

¹⁷⁴ *Id.* at 378.

¹⁷⁵ *Id.*

¹⁷⁶ See Timothy Lau, *Trade Secret Seizure Best Practices Under the Defend Trade Secrets Act of 2016*, FED. JUD. CTR. vi (June 2017), <https://www.fjc.gov/content/323518/dtsa-best-practices-june-2017> (“Cases involving seizures of trade secrets are inherently challenging. From a practical point of view . . . the courts generally will not have the luxury of time in handling these cases. Also, because [*ex parte*] may be invoked ‘only in extraordinary circumstances,’ individual judges are unlikely to build up experience with these types of cases through repeated encounters. These factors combine to make these cases difficult to adjudicate.”).

Despite these valid differences between trade secrets and trademark protection, the actual impact of *ex parte* seizures thus far dampens some of these concerns.¹⁷⁷

H. EMPIRICAL DTSA ANALYSIS

Studying trade secret litigation only grants limited insight into DTSA's impacts. "Trade secret litigation can be quite expensive . . . median litigation cost for a trade secret case varied from \$400,000 . . . to over \$1.6 million."¹⁷⁸ Since a defendant faces stiff monetary damages in addition to litigation costs, "it is frequently more cost-effective 'to settle than to litigate.'"¹⁷⁹ Parallel federal and state trade secret claims exacerbate the incentive to settle.

Trade secret claims present other unique assessment problems. Some plaintiffs might prefer private alternative dispute resolution methods to avoid publicly disclosing trade secrets.¹⁸⁰ Additionally, arbitration likely siphons a portion of potential DTSA litigation,¹⁸¹ since employment agreements commonly contain mandatory arbitration clauses. Since 90% of trade secret issues are between an employer and an insider, arbitration likely reduces litigation incidents.

Professors Seaman and Levine completed a comprehensive empirical study of DTSA litigation reviewing the statute's first year.¹⁸² The study reviewed 486 cases that raised a DTSA claim between May 11, 2016 and May 11, 2017.¹⁸³ 29% of DTSA claims arose from major technology and corporate hubs (Chicago, San Francisco, Silicon Valley, Los Angeles, and New York City); however, DTSA claims were well-distributed across district courts (74% of courts had at least one DTSA claim).¹⁸⁴ The study drew an interesting comparison to a patent case study from 2016 that found patent litigation concentrated in two district courts—Eastern District of Texas and Delaware; these patent-heavy districts handled only 3% of DTSA litigation.¹⁸⁵ The study suggested DTSA expanded plaintiff's

¹⁷⁷ David S. Levine & Christopher B. Seaman, *The DTSA at One: An Empirical Study of the First Year of Litigation Under the Defend Trade Secrets Act*, 53 WAKE FOREST L. REV. 105, 150 (2018) (studying the first year of DTSA cases after its passage, the authors only found 10 out of 486 cases (2%) that requested an *ex parte* motion, and the court granted seizure in only two of them).

¹⁷⁸ *Id.* at 134.

¹⁷⁹ *Id.* (quoting Robert H. Gertner, *Asymmetric Information, Uncertainty, and Selection Bias in Litigation*, 1993 U. CHI. L. SCH. ROUNDTABLE 75, 79 (1993)).

¹⁸⁰ *Id.*

¹⁸¹ *Id.* at 134.

¹⁸² *Id.* at 150.

¹⁸³ *Id.* at 124-25.

¹⁸⁴ *Id.* at 139-40.

¹⁸⁵ *Id.* at 140.

access to federal courts;¹⁸⁶ 78% of cases asserted supplemental jurisdiction over state law claims.¹⁸⁷ 45% of plaintiffs alleged additional federal claims¹⁸⁸ and “nearly all cases with a DTSA claim also asserted one or more related state law causes of action.”¹⁸⁹ Not surprisingly, “the most frequently raised state law claim was trade secret misappropriation.”¹⁹⁰ Notably though, contract-related claims frequently accompanied a DTSA allegation.¹⁹¹ The frequency of these contract claims suggests trade secret misappropriation commonly happens in context of an insider or sharing agreement, either between two firms or between an employer and employee.

The type of trade secret at-issue confirms this insider context. Plaintiffs alleged misappropriation of their customer and business information (i.e. marketing, financials, customer lists, etc.) far more frequently than secret formulas or software algorithms.¹⁹² Although plaintiffs alleged “technical information” misappropriation fairly frequently (40%),¹⁹³ the data suggests that there are far fewer instances of America’s “innovations” being disputed in court. In fact, the study confirms that historical trade secret litigation trends merely continued after DTSA. “Approximately two-thirds of all DTSA disputes involve a current or former employee of the alleged trade secret owner . . . [and] 26% involve a current or former business partner . . . Only 10% of DTSA claims (50 cases) involve parties who lack a prior relationship.”¹⁹⁴ In fact, “72% of all DTSA claims” assert the defendant is subject to a non-disclosure agreement (NDA).¹⁹⁵ NDAs are frequently used to create a contractual obligation to protect confidential information.

¹⁸⁶ *Id.* at 142 (finding 26% of cases lacked federal jurisdiction but-for the DTSA claim).

¹⁸⁷ *Id.*

¹⁸⁸ *Id.* at 142-43 (noting the most common federal claims plaintiffs brought with the DTSA were alleged violations of the Computer Fraud and Abuse Act (20%) and the Lanham Act (15%)).

¹⁸⁹ *Id.* at 143.

¹⁹⁰ *Id.* at 144 (finding 84% of DTSA cases also brought a state law trade secret misappropriation claim).

¹⁹¹ *Id.* at 143-44 (breaking down contract-related claims brought in addition to a DTSA claim: breach of contract (70%); unjust enrichment (22%); breach of fiduciary duty (40%); breach of implied covenant of good faith (10%)).

¹⁹² *Id.* at 145-46 (noting customer lists and business information were alleged more frequently (58%) compared to software (22%) or formulas (8%)).

¹⁹³ *Id.*

¹⁹⁴ *Id.* at 146.

¹⁹⁵ *Id.* at 148.

Only 9% of DTSA cases alleged any form of cyber espionage,¹⁹⁶ and even fewer (6%) alleged misappropriation from a foreign entity.¹⁹⁷ Although Congress passed the DTSA amidst the “greatest transfer of wealth in history” from American businesses to foreign entities,¹⁹⁸ it seems clear the DTSA is not used for this purpose.

I. A SNAPSHOT OF DTSA CASE LAW

At the time of this writing, seven appellate circuits cited the Defend Trade Secrets Act, but none of the opinions contribute to the statute’s substantive provisions, and none address how to apply the statute’s provisions when in conflict with state law.¹⁹⁹

District court case law validates the preemption criticism DTSA received. District courts followed Congress’s intent for the DTSA to co-exist with state law;²⁰⁰ however, by doing so, the court reduced the DTSA into an amorphous being that takes a different shape depending on the context of the case at-hand. The following case demonstrates DTSA’s nebulous nature.

1. *In re Patriot National Inc.*

In re Patriot is a prime example of how the DTSA fails to harmonize trade secret law.²⁰¹ Corporate Claims Management, Inc. (CCMI) provided insurance

¹⁹⁶ *Id.* at 147 (“[T]he vast majority of trade secret misappropriation claims under the DTSA do not allege hacking . . . most hacking claims involve domestic rather than foreign defendants; only 4 cases assert that a foreign citizen plotted to steal trade secrets through cyberespionage.”).

¹⁹⁷ *Id.* at 146-147 (showing that foreign defendants hailed from: China (7 cases); Canada (5); Singapore (3); France, India, Taiwan (2 each); Colombia, Cayman Islands, Germany, Japan, Jordan, Mauritius, Sweden, United Kingdom, and Russia (1 each)).

¹⁹⁸ Rogin, *supra* note 68.

¹⁹⁹ *See, e.g.,* Par Pharm., Inc. v. QuVa Pharma, Inc., 764 F. App’x 273 (3d Cir. 2019) (addressing the standard for preliminary injunction; treats DTSA standard the same as New Jersey’s standard); Fres-co Sys. USA, Inc. v. Hawkins, 690 Fed. Appx. 72 (3d Cir. 2017) (preliminary injunction standard); Akira Techs., Inc. v. Conceptant, Inc., 773 F. App’x 122 (4th Cir. 2019) (attorney fees); Dunster Live, L.L.C. v. LoneStar Logos Mgmt. Co., 908 F.3d 948 (5th Cir. 2018) (attorney fees); Kondash v. Kia Motors Am., Inc., 767 F. App’x 635 (6th Cir. 2019) (arguing in the dissent that DTSA should apply over Ohio state law, but notes that the provisions are essentially the same); CMI Roadbuilding, Inc. v. Iowa Parts, Inc., 920 F.3d 560 (8th Cir. 2019) (statute of limitations); DTC Energy Grp., Inc. v. Hirschfeld, 912 F.3d 1263 (10th Cir. 2018) (preliminary injunction standard); First W. Capital Mgmt. Co. v. Malamed, 874 F.3d 1136 (10th Cir. 2017) (preliminary injunction standard); My24HourNews.com, Inc. v. AT&T Corp., 791 F. App’x 788 (11th Cir. 2019) (statute of limitations).

²⁰⁰ S. REP. NO. 114-220, at 9 (2016).

²⁰¹ *In re Patriot Nat’l Inc.*, 592 B.R. 560 (Bankr. D. Del. 2018).

claims administration and risk management services for its clients.²⁰² CCMI employed Michelle Shaiper as their Chief Operations Officer.²⁰³ In her role, Shaiper was privy to confidential business information.²⁰⁴ CCMI required her to sign an employment agreement promising “not to engage in any interfering activities during her employment.”²⁰⁵ In January 2018, Shaiper began working for a different insurance firm, Brentwood, after tendering her resignation the month before.²⁰⁶ CCMI filed for Chapter 11 bankruptcy protection on January 30, 2018, and initiated claims for trade secret violations against Shaiper and Brentwood shortly thereafter.²⁰⁷ CCMI alleged that Shaiper hired several former CCMI employees and that those employees brought CCMI customers with them.²⁰⁸ Those customers generated “approximately \$3.4 million” in revenue.²⁰⁹ CCMI alleged trade secret misappropriation under three statutes: “the Missouri Uniform Trade Secrets Act (MUTSA), the Florida Uniform Trade Secrets Act (FUTSA), and the Defend Trade Secrets Act (DTSA).”²¹⁰

CCMI alleged misappropriation for seven types of information, which the court separated into two categories: customer list allegations and non-customer list allegations.²¹¹ Missouri law does not recognize customer lists as trade secrets; therefore, the court dismissed misappropriation allegations for that category of information, but maintained the allegations for the others.²¹² As to the Florida trade secret allegations, the court determined “[t]he only connection to Florida law in this case is the [Employee Agreement] signed by Shaiper . . . which states that Florida law will govern any disputes”²¹³ The court maintained the Florida trade secret allegations against Shaiper, but dismissed the allegations against Shaiper’s new employer because Brentwood was not a party to the employee agreement.²¹⁴ Finally, the court addressed the DTSA allegations:

As the DTSA is to conform with state trade secret laws and not alter specific court decisions, the Court will mirror its rulings under the MUTSA and FUTSA. Therefore, the claims against

²⁰² *Id.* at 569.

²⁰³ *Id.*

²⁰⁴ *Id.*

²⁰⁵ *Id.*

²⁰⁶ *Id.* at 569-70.

²⁰⁷ *Id.* at 570.

²⁰⁸ *Id.*

²⁰⁹ *Id.*

²¹⁰ *Id.* at 574.

²¹¹ *Id.*

²¹² *Id.* at 575 (citing *Western Blue Print Co. v. Roberts*, 367 S.W.3d 7, 18 (Mo. 2012) as the authority that Missouri law does not recognize customer lists as protectable trade secrets).

²¹³ *Id.* at 576-77.

²¹⁴ *Id.* at 577.

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Brentwood survive the motion for the Non-Customer List Materials (as they did under the MUTSA); and the claims against Shaiper survive the motion in their entirety (as they did under the FUTSA).²¹⁵

The court applied the DTSA *differently against different defendants in the same action*. DTSA merely increased the defendant's liability. DTSA has no shape. What happens when courts are faced with a standalone DTSA claim? In the end, defendants are left unsure what liability they face when they leave a company.

The complexity showcased by *In re Patriot* shows that trade secret litigation costs will only increase as well. Courts and litigants must remain vigilant about what standards apply to specific claims. Increased complexity leads to increased costs and liability; defendants have little incentive to go beyond the motion to dismiss stage.

J. PROPOSED DTSA AMENDMENT IN THE SENATE

Senator Kamala Harris proposed an amendment to the Defend Trade Secrets Act, referred to as the “Deterring Espionage by Foreign Entities through National Defense Act of 2019” (the DEFEND Act).²¹⁶ The amendment extends DTSA's statute of limitations to five years and grants treble damages for trade secrets willfully misappropriated.²¹⁷ The amendment also seeks to make it easier to enjoin trade secret misappropriation conduct that occurs outside of the United States by including the provision “the offense causes substantial economic harm in the United States.”²¹⁸ As of now, no amendment addresses DTSA's primary criticisms—preemption and *ex parte* seizure.

III. ANALYSIS

Congress must repeal the Defend Trade Secrets Act. Trade secret law unsuccessfully attempts to protect the secret itself. The trade secret owner is in

²¹⁵ *Id.* (referring to DTSA's legislative history and citing *Source Prod. & Equip. Co. v. Schehr*, No. 16-17528, 2017 WL 3721543, at *2 (E.D. La. Aug. 29, 2017) (“[E]xisting state law on trade secrets informs the Court's application of the DTSA.”)).

²¹⁶ DEFEND Act, S. 1865, 116th Cong. (2019).

²¹⁷ *Id.*

²¹⁸ *Id.* (proposed amendment for 18 U.S.C.A. § 1837 (Westlaw through Pub. L. No. 116-169), which currently reads: “This chapter also applies to conduct occurring outside the United States if (1) the offender is a natural person who is a citizen or permanent resident alien of the United States, or an organization under the laws of the United States or a State or political subdivision thereof; or (2) an act in furtherance of the offense was committed in the United States.”).

the best position to prevent their secret from disclosure. Not Congress. Not the court.

Importantly, this Note does not advocate for abolishing trade secret protection altogether and does not view patent protection, by itself, as sufficient. “A more important consideration is that the patent route, because of its cost and required disclosures, often just is not attractive to an inventor of a patentable invention, so that to abolish or curtail trade secrecy would undermine incentives to innovate.”²¹⁹ Applied correctly, trade secret law and patent law work together to encourage innovation and provide for appropriate protection.

Instead, this Note argues for a creative alternative where the federal government focuses on *actual* trade secret misappropriation, specifically those actions that harm the competitive marketplace. The DTSA, as used by trade secret owners and applied by the courts, stifles innovation and competition. Trade secret owners must accept more responsibility and accountability to protect their own secrets.

Trade secret disputes generally arise under three situations: “competitive intelligence, business transactions, and departing employees.”²²⁰ As the subsequent sections show, only competitive intelligence disputes invoke a federal interest because those claims potentially include actions that unfairly harm competition and disincentivize innovation.

A. SITUATION ONE: BUSINESS TRANSACTIONS

Business transaction disputes do not invoke a federal interest. In the context of a joint venture, or other agreement where parties agree to share trade secrets, the contracting parties are in the best position to assess the impact that would result from the other party misappropriating their trade secret. A trade secret owner is in the best position to judge the risk, and reward, of trusting another party with their trade secret knowledge.

B. SITUATION TWO: DEPARTING EMPLOYEES

1. *Non-Compete Agreements*

Skilled employees suffer the most from trade secret law. Employers control former employees through non-compete agreements and injunctive relief. Non-compete agreements preclude an employee from future employment with a competitor, at least for a certain period of time and usually within a certain geographic distance from the original employer.²²¹ Both methods— non-compete agreements and injunctive relief —are justified on the grounds that an

²¹⁹ LANDES & POSNER, *supra* note 37, at 360.

²²⁰ Lemley, *supra* note 16, at 318.

²²¹ *Covenant not to compete*, BLACK’S LAW DICTIONARY (11th ed. 2019), available at Westlaw.

employee retains their former employer's trade secret knowledge and will presumably use those secrets in their next venture.

Employees' covenants not to compete with their former employer for a period of years are an important method of protecting trade secrets, because it is easier to detect and prove a violation of such a covenant than it is to discover and prove that a competitor's discovery of one's trade secret is the result of unlawful appropriation rather than of independent research.²²²

Although non-compete agreements promote judicial economy, their enforcement is based entirely on the contract and asks nothing about the secret that is actually being protected, or whether the secret exists. Non-compete agreements operate under the guise of protecting an employer's trade secrets, but these agreements also restrict employee know-how. Trade secret law authorizes competitors to reverse engineer inventions as an explicitly proper method of uncovering a trade secret. How is reverse engineering different from competing for the labor that produced the product?

One of the benefits of allowing reverse engineering is the second inventor may use the discovered trade secret in a new innovative way instead of merely duplicating an existing product.²²³ "To forbid reverse engineering would inhibit the development of products that do not even compete with the one that has been reverse engineered."²²⁴ Why is independent research and reverse engineering deemed "proper," but hiring the skilled employees needed to accomplish this feat forbidden?

There is growing bipartisan support in Congress for eliminating non-compete agreements.²²⁵ Non-compete agreements reduce employee mobility (including employees who wish to start their own business), stifles competition for skilled labor, and limits employee leverage negotiating for better conditions or higher wages.²²⁶ "The combination of expanding trade-secret law and the growing use of employment contracts covering post-employment activity has a huge impact

²²² LANDES & POSNER, *supra* note 37, at 365.

²²³ *Id.*

²²⁴ *Id.*

²²⁵ See Freedom to Compete Act, S. 124, 116th Cong. (2019); Workforce Mobility Act, S. 2782, 115th Cong. (2018); Workforce Mobility Act, H.R. 5631, 115th Cong. (2018).

²²⁶ Ryan Burke, *What You Need to Know About Non-Compete Agreements and How States are Responding*, THE WHITE HOUSE PRESIDENT BARACK OBAMA (May 5, 2016, 11:16 AM), <https://obamawhitehouse.archives.gov/blog/2016/05/05/what-you-need-know-about-non-compete-agreements-and-how-states-are-responding>.

on the career trajectories of many workers.”²²⁷ Non-compete agreements disincentivize skilled workers to develop new skills and expand their knowledge because their post-employment prospects are so limited.²²⁸ Studies show that “managers earn less and they receive incentive compensation less often in states with non-compete enforcements, all else equal. Other researchers found a similar effect in states that provide employers stronger controls via trade-secret law.”²²⁹

[W]hen employers control not only true trade secrets but also general employee knowledge and skills, the net effect is it reduces investment and innovation. [Studies] found that states that allow employers to enforce noncompete agreements actually invest less per employee. And economists . . . found that in these states, venture capital investments generate fewer patents, fewer new firms, and less job growth.²³⁰

Additionally, not only do employees struggle finding a job after leaving a firm, but start-up firms struggle hiring talent in states that enforce non-compete agreements.²³¹

Trade secret law protects actual and *potential* trade secret misappropriation;²³² thus, employers seeking injunctive relief under trade secret law are the functional equivalent to employers that use non-compete agreements. Congress’s potential legislation against non-compete agreements is non-sensical considering the way employers use, and the courts enforce, the Defend Trade Secrets Act. If non-compete agreements are foreclosed, Congress provides employers with federal court access to seek injunctive relief instead, via the DTSA.²³³

2. *Protecting Competition for Labor and Business*

States compete directly with each other for new business and labor. For example, Kansas City, Kansas, and Kansas City, Missouri bitterly compete against one another for new business; so much so that Missouri introduced legislation, at least twice, offering a truce with Kansas to put the fierce competition to rest.²³⁴ Trade secret laws play a role in state competition.

²²⁷ James Bessen, *How Companies Kill Their Employees’ Job Searches*, THE ATLANTIC (Oct. 17, 2014) <https://www.theatlantic.com/business/archive/2014/10/how-companies-kill-their-employees-job-searches/381437/>.

²²⁸ *Id.*

²²⁹ *Id.*

²³⁰ *Id.*

²³¹ *Id.*

²³² 18 U.S.C.A. § 1832.

²³³ 18 U.S.C.A. § 1836.

²³⁴ *Missouri Offers Truce to Kansas in Business Incentive Battle*, AP NEWS (May 17, 2019), <https://apnews.com/f275b4faf8dd47df893674a96c584bf3>.

“[E]vidence shows that states that enforce noncompete agreements experience something of a ‘brain drain.’ . . . [I]nventors tend to migrate to states that do not allow employers to enforce noncompete agreements.”²³⁵ Additionally, employee mobility improves innovation as “illustrated by the phenomenal success of Silicon Valley,” where California does not enforce non-compete agreements.²³⁶

Silicon Valley employees move around more . . . no doubt often taking some of their previous employers’ trade secrets with them. The resulting pooling of knowledge may . . . contribute more to technological progress than the greater internalization of new technological ideas that a more effective scheme for the protection trade secrets would contribute. . . .”²³⁷

The movement of employee know-how between firms promotes new knowledge at each stop, and promotes innovation upon existing technologies. More importantly, employers are incentivized to foster a healthy work environment with competitive wages, and even encourage employees to seek additional training, education, or joint ventures that increase employee know-how and satisfaction. Instead of companies swapping trade secrets themselves, perhaps joint ventures that intermingle employees are more efficient. “The informal pooling that comes from the unenforceability of employee covenants not to compete may be on balance more efficient [than cross-licensing technologies].”²³⁸ Even though this Note primarily argues that non-compete agreements should be abandoned completely, there is some justification for their existence. For example, variable state trade secret laws could fuel competition for new talent and new businesses amongst the states.

C. SITUATION THREE: COMPETITIVE INTELLIGENCE

Congress should also consider its own cost-benefit analysis. “Consider by way of analogy the distinction in international law between lawful and unlawful espionage”²³⁹ Lawful espionage is illustrated by a nation, “ferret[ing] out another nation’s secrets by patient collation of its published statistics and its newspaper articles.”²⁴⁰ On the other hand, “unlawful [espionage] is illustrated by bribery . . . , by extortion, by kidnapping . . . in other words, by common law offenses. In part the legal difference is due to the greater cost of preventing

²³⁵ Bessen, *supra* note 228.

²³⁶ *Id.*

²³⁷ LANDES & POSNER, *supra* note 37, at 365.

²³⁸ *Id.* at 366.

²³⁹ *Id.* at 363.

²⁴⁰ *Id.*

espionage of the first kind.”²⁴¹ Non-compete agreements, discussed in the preceding section, do not distinguish between “lawful” or “unlawful” espionage. Instead, enforcement is based entirely in contract law, which fails to ask pertinent questions about the actual trade secret that is being protected. Instead, non-compete agreements operate under the assumption that trade secret misappropriation will happen. This assumption, as well as the failure to inquire about the secret that is being protected, harms innovation and technological progress.

Nonetheless, Congress should be concerned with the unlawful tactics used to gain a competitive advantage, because that inhibits a competitive process and competitive marketplace. Much like international law that tolerates lawful espionage, Congress should abandon all issues related to employee mobility and dedicate its resources only to those unlawful tactics.

1. *Trade Secret Law Incentivizes the Wrong Behavior*

Trade secret law requires trade secret owners to take reasonable steps to protect its secret, a shifting standard that is determined based on the value of the secret and the situation at hand.²⁴² Judge Posner described the significance of the precautions trade secret owners use to protect their secrets in *Rockwell Graphic Systems, Inc. v. DEV Industries, Inc.*²⁴³ “The greater the precautions that [the trade secret owner] took to maintain the secrecy of [their secret] . . . the higher the probability that [the alleged thief] obtained [the secret] through a wrongful act; the owner had taken pains to prevent them from being obtained otherwise.”²⁴⁴ Alternatively, a trade secret “cannot have been worth much if [the owner] did not think it worthwhile to make serious efforts to keep the information secret.”²⁴⁵

However, we want trade secret owners to “take *some* precautions, but not too many.”²⁴⁶ Precautions are not costless, and “perfect security is not optimum security. . . . If trade secrets are protected only if their owners take extravagant, productivity-impairing measures to maintain their secrecy, the incentive to invest resources in discovering more efficient methods of production will be reduced, and with it the amount of invention.”²⁴⁷ According to Landes and Posner,

²⁴¹ *Id.*

²⁴² See *Rockwell Graphic Systems, Inc. v. DEV Industries, Inc.*, 925 F.2d 174, 179 (7th Cir. 1991) (“But only in an extreme case can what is a ‘reasonable’ precaution be determined on a motion for summary judgment, because the answer depends on a balancing of costs and benefits that will vary from case to case and so require estimation and measurement by persons knowledgeable in the particular field of endeavor.”).

²⁴³ 925 F.2d 174 (7th Cir. 1991).

²⁴⁴ *Id.* at 179.

²⁴⁵ *Id.*

²⁴⁶ LANDES & POSNER, *supra* note 37, at 369.

²⁴⁷ *Rockwell Graphic Systems, Inc.*, 925 F.2d at 180.

Even without a law against the outright theft of trade secrets . . . a firm could do a lot to reduce the probability of such thefts . . . by screening employees . . . [and] installing more effective security systems. *It will do less if the threat of legal sanctions deters the theft of its trade secrets.*²⁴⁸

The DTSA incentivizes trade secret owners to do less to protect their secrets. As this Note discussed previously, defendants faced increased liability, and increased costs, from trade secret litigation after the DTSA passed. With increased costs, defendants are less likely to challenge litigation from trade secret owners. Because of this, trade secret owners are in good position to secure injunctive relief without the need to defend the security measures taken to protect the secret at-issue, or if a legally recognized trade secret even exists. Trade secret owners enjoy the protection of a safety net that fails to incentivize them to protect their own secrets.

a. “*Break the woks and sink the boats*”

Nevertheless, trade secret owners are properly incentivized without a federal safety net. After crossing a river into enemy territory, a Chinese commander ordered his troops to set fire to their own boats and woks. The Chinese army would defeat the enemy, or they would die. There was no other option. Congress should follow this tactic. Trade secret owners are in the best position to prevent disclosure of a secret in accordance with the value of the secret. The law needs to hold trade secret owners accountable for that burden.

Critics may express concerns that employees will not be properly deterred from stealing their employer’s trade secrets. However, a 1998 Israeli study that documented how often parents were late picking up their children from day care provides some evidence that should mitigate those concerns.²⁴⁹ Before the study began, parents were rarely late picking up their children, and were not fined the few times they were.²⁵⁰ After some time, researchers began imposing fines for late pick-ups; at which point, the study noted a dramatic *increase* in late pick-ups.²⁵¹ By placing a monetary value on being late, parents could complete a cost-benefit analysis and determine if being late was worth the fine.²⁵² In other words, before a fine was imposed, parents felt guilty requiring daycare workers to stay past closing.²⁵³ The study showed how a system built on non-monetary

²⁴⁸ LANDES & POSNER, *supra* note 37, at 367 (emphasis added).

²⁴⁹ See generally Uri Gneezy & Aldo Rustichini, *A Fine is a Price*, 29 J. LEGAL STUD. 1 (2000).

²⁵⁰ *Id.* at 4.

²⁵¹ *Id.* at 5-8.

²⁵² *Id.*

²⁵³ *Id.*

incentives could be more effective than imposing a fine.²⁵⁴ Similarly, employers can properly incentivize their employees without threatening litigation and limiting their future employment opportunities. Instead, investing in their employees can produce the non-monetary incentives similar to those shown in the Israeli project.

Before the DTSA was passed, an Eli Lilly representative noted that sometimes departing employees would download Lilly trade secrets before they left.²⁵⁵ That action should be condemned, but be mindful that the value of those secrets are unknown, and whether the employee should even have access to those secrets is unknown. If the goal is to prevent disclosure of secrets in the first instance, Eli Lilly is in the best position to do that, and that is where the government should motivate Eli Lilly to strengthen its own internal policies. Instead of providing a safety net in case an employee might disclose a secret, the government should focus on instances where Eli Lilly alleges actual misappropriation, such as the example Eli Lilly provided in their comment to Congress.²⁵⁶

Sink the boats. Break the woks. Invest in your employees. What likely remains is intentionally wrongful conduct that the government can comfortably condemn because it likely harms innovation and competition.

2. *Federal Interest Properly Lies in Improper Conduct*

“[F]ocusing exclusively on protecting perceived trade secret rights misses the point that what we really care about is preventing certain behaviors that are deemed wrongful”²⁵⁷ The United States seeks to promote innovation and competition. As discussed previously, competition amongst the states is promoted by avoiding a federal trade secret law; however, Congress is rightfully concerned with trade secret theft when it rises to the level of unfair competition. Although Congress is in a poor position to prevent theft, the government could punish conduct that results in actual theft, or harms the competitive marketplace.

Congress has battled unfair competitive behavior in the marketplace for over a century. The Sherman Act, enacted in 1890, bars conspiracies and combinations that restrain trade, as well as unlawful attempts to monopolize or maintain a monopoly.²⁵⁸ In 1914, Congress followed up the Sherman Act with the Clayton Act (generally, precluding stock or company acquisitions that produce anticompetitive effects),²⁵⁹ and the Federal Trade Commission (FTC)

²⁵⁴ *Id.*

²⁵⁵ Cannan, *supra* note 47, at 366.

²⁵⁶ *Id.*

²⁵⁷ Levine & Sandeen, *supra* note 117, at 235.

²⁵⁸ Sherman Act, ch. 647, 26 Stat. 209 (codified as 15 U.S.C. § 1).

²⁵⁹ 15 U.S.C.A. § 18 (Westlaw through Pub. L. No. 116-182) (“No person engaged in commerce or in any activity affecting commerce shall acquire, directly or indirectly, the whole

Act.²⁶⁰ As its name implies, the FTC Act established the Federal Trade Commission as an independent agency.²⁶¹ The FTC Act declares “[u]nfair methods of competition in or affecting commerce, and unfair or deceptive acts or practices in or affecting commerce” unlawful.²⁶² Furthermore, the FTC Act empowers the Commission “to prevent persons, partnerships, or corporations . . . from using unfair methods of competition in or affecting commerce and unfair or deceptive acts or practices in or affecting commerce.”²⁶³

Competitive intelligence cases normally involve an independent wrong.²⁶⁴ Competitive intelligence gained from these tactics easily constitutes unfair methods of competition that align particularly well with the Federal Trade Commission’s current mission. Both Congress and the Supreme Court empower the FTC to establish what constitutes unfair competition. As the Supreme Court noted, Congress “explicitly considered, and rejected, the notion that it reduces the ambiguity of the phrase ‘unfair methods of competition’ . . . It is impossible to frame definitions which embrace all unfair practices. There is no limit to human inventiveness in this field.”²⁶⁵

Thus, the Supreme Court grants the FTC considerable discretion “in measuring a practice against the elusive, but congressionally mandated standard of fairness.”²⁶⁶ The Supreme Court adopted the factors the FTC considers when determining if an act is unfair, including “whether it is immoral, unethical, oppressive, or unscrupulous,” and “whether it causes substantial injury to consumers (or competitors or other businessmen).”²⁶⁷ Finally, the Commission’s experience using permanent injunctions and equitable monetary relief to restore competitive balance is critical in this context.²⁶⁸

or any part of the stock or other share capital . . . of another person engaged also in commerce or in any activity affecting commerce, where . . . the effect of such acquisition may be substantially to lessen competition, or to tend to create a monopoly.”)

²⁶⁰ STEPHANIE W. KANWIT, FEDERAL TRADE COMMISSION § 3:2 (2020-2021 ed.).

²⁶¹ See 15 U.S.C.A. § 41 (Westlaw through Pub. L. No. 116-182). The Department of Justice (DOJ) enforced the Sherman Act prior to the FTC Act being passed. Today, DOJ continues to enforce the antitrust laws, but there is no clear delineation in responsibility between the DOJ and the FTC. Through their history, the agencies have occasionally disagreed on antitrust enforcement, most recently in 2019. See John D. McKinnon & James V. Grimaldi, *Justice Department and FTC Skirmish Over Antitrust Turf*, WALL ST. J. (Aug. 5, 2019), <https://www.wsj.com/articles/justice-department-ftc-skirmish-over-antitrust-turf-11564997402>.

²⁶² 15 U.S.C.A. § 45(a)(1) (Westlaw through Pub. L. No. 116-182).

²⁶³ *Id.* § 45(a)(2).

²⁶⁴ See Lemley, *supra* note 16, at 317-18.

²⁶⁵ F.T.C. v. Sperry & Hutchinson Co., 405 U.S. 233, 239-40 (1972).

²⁶⁶ *Id.* at 244.

²⁶⁷ *Id.* at 244 n.5.

²⁶⁸ It is noteworthy though, that the FTC’s ability to seek equitable monetary relief is currently under attack, and in an unsettled state. See Fed. Trade Comm’n v. Credit Bureau Ctr.,

However, simply giving this mission to the FTC will not save the United States from trade secret theft. Aside from the persistent concern of scarce government resources, the Commission is limited to enforcing unfair methods of competition against foreign nations only when certain criteria are met²⁶⁹ and lacks expertise combatting espionage or cyber espionage. Industrial espionage encompasses a diverse range of bad actors that could be domestic or foreign, private or national. Combatting this diverse threat requires creative applications of the government's expertise. Perhaps, the government should consider a joint venture between the FTC and other government agencies, such as the National Security Agency who could bring cybersecurity expertise. A government joint venture can act proactively to train businesses on proper security measures and publish best practices related to trade secret protection and policies.

Whatever Congress molds as the solution, repealing the Defend Trade Secrets Act is the first step. The DTSA harms innovation while doing nothing to stem the \$600 billion tide of stolen secrets²⁷⁰ leaving the country. Although government resources are always a concern, the sheer vastness of this problem warrants significant investment.

IV. CONCLUSION

Congress must repeal the Defend Trade Secrets Act. The DTSA unnecessarily adds complexity to trade secret litigation, gives plaintiffs an overwhelming litigation advantage, and fails to effectively protect trade secrets. Congress sought to structure the DTSA so that it co-existed alongside state trade secret law, but by doing so the DTSA merely adds complexity to litigation and fails to harmonize state law variations. Additionally, amending DTSA to preempt state law negatively impacts state-level competition for business and labor.

Neither Congress nor the courts are in the best position to prevent trade secret disclosure. Trade secret owners bear this burden. Instead, Congress should focus on *actual* trade secret misappropriation through unfair competitive conduct. The majority of trade secret litigation affected business “insiders” and disputes over customer information or business strategy information. Although business owners find this information extremely valuable to protect their local market share, this is hardly the innovative technical information that Congress believes gives the United States a competitive advantage.

Variations in state laws reflect very different attitudes towards trade secrets and how best to protect them. At the federal level, Congress has a legitimate

L.L.C., 937 F.3d 764, 785-86 (7th Cir. 2019) (overturning circuit precedent to conclude that the section 13(B)'s permanent injunction provision does not authorize monetary relief).

²⁶⁹ 15 U.S.C.A. § 45(a)(3) (Westlaw through Pub. L. No. 116-182).

²⁷⁰ COMM'N ON THE THEFT OF AM. INTELL. PROP., *supra* note 2, at 1.

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interest in maintaining a fair, competitive marketplace; thus, trade secrets stolen through cyber theft or other industrial espionage tactics fall within Congress's concern. Trade secret law fails to combat these wrongs.

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