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Are They Going To Federalize Trade Secrets Law?

TRADE SECRETS HAVE LONG BEEN THE only major form of intellectual property governed exclusively by state law, but that may soon change. As high tech, life sciences, and consumer goods companies recognize the growing importance of trade secrets—and the increasing risk of their theft—Congress has responded with the Defend Trade Secrets Act of 2015 ("DTSA"), a bipartisan bill that creates a federal cause of action for trade secret misappropriation.

The DTSA aims to provide more uniform, robust protection for trade secrets by opening the doors to federal court. The bill recently emerged from the Senate Judiciary Committee ("SJC") with support from both parties and key industry players wary of trade secret theft.

The SJC cited reports indicating that trade secret theft costs American companies over 300 billion dollars annually—and the pace is increasing. As former U.S. Attorney General Eric Holder said, "there are only two categories of companies affected by trade secret theft—those that know they've been compromised and those that don't know yet."

This article is the first in a three-part series examining the DTSA's potential sea change in trade secret law. Part I examines the bill's support; its perceived advantages and limitations; and steps companies should take to protect their trade secrets. Part II analyzes the DTSA's jurisdictional scope, including its interaction with state law claims. Part III examines the DTSA's *ex parte* seizure provisions, including how the process will work in practice.

Support for Federal Trade Secret Protection

Given the costs and uncertainties of patent law, and the time-limited protection that patents afford, businesses depend increasingly on trade secrets to shield proprietary information. But with this increased reliance comes increased risk. As SJC Chairman Senator Charles Grassley stated, between global competition and increasingly mobile data, misappropriation that "before might have taken a truck, today only takes a USB key slipped in somebody's pocket."

Accordingly, the DTSA enjoys widespread industry support. Prominent high-tech, life-sciences, and consumer goods companies wrote a letter to the SJC stating that state laws were "inadequate to address the interstate and international nature of trade secret theft today." Signatories included Boeing, Eli Lilly, General Electric, Honda, IBM, Intel, Johnson & Johnson, NIKE, Pfizer, and 3M. Trade organizations also lent support, including the Association of Global Automakers, Inc., the Biotechnology Industry Organization, Medical Device Manufacturers Association, the Software & Information Industry Association, and the U.S. Chamber of Commerce.

Perceived Advantages of a Federal Approach

The DTSA aims to enhance trade secret protection in three major ways:

First, the DTSA is designed to provide greater uniformity. The existing variability among state law regimes can (a) force companies to

either organize affairs in different ways in different states or risk losing trade secret protection; (b) subject mobile employees to greater risks of litigation for materials that may or may not qualify as trade secrets, depending on the jurisdiction; (c) encourage forum shopping and races to the courthouse for cases that might best be settled out of court; and (d) inject additional uncertainty into litigation due to choice-of-law questions.

The Uniform Trade Secrets Act ("UTSA"), published in 1979 and amended in 1985, was intended to accomplish the same goal of uniformity. But the UTSA was not adopted by every state, and states that adopted the UTSA did so with their own wrinkles. For example, state laws vary as to which statutes of limitations apply, whereas the DTSA would create a uniform three-year statute of limitations from the date the theft was, or reasonably should have been, discovered. State laws also vary as to whether courts can enjoin an employee who knows a trade secret from taking a similar position at another company under the theory that such employment will lead to "inevitable disclosure." The DTSA, as currently constituted, would not permit injunctions based merely on the information known by a departing employee.

Second, DTSA proponents argue that federal courts can streamline discovery; more readily facilitate service of defendants and witnesses in various locations; and, perhaps, more effectively prevent foreign parties from leaving the United States.

Third, the DTSA empowers federal courts, after an *ex parte* hearing, to seize stolen trade secrets to prevent their dissemination. Trade secret owners see this as a critical step to avoid, or mitigate harm. Part III of this series will examine in depth how companies can leverage this powerful tool.

The DTSA's Perceived Limitations

Opponents of the bill have raised several objections. As an initial matter, the DTSA may not enhance uniformity, because it does not preempt state law, but runs concurrently, such that the federal regime could merely add another layer of interpretation onto current approaches to trade secret law, and raise thorny jurisdictional questions. Much of the current variability in trade secret cases stems not from trade secret law itself, but rather from other legal issues that often arise in trade secret cases, such as the applicability and enforcement of non-compete agreements, which the DTSA does not address.

Moreover, a group of prominent law school professors has argued the DTSA (a) fails to explicitly address cyber-espionage; (b) could harm small businesses ill-equipped to litigate a seizure order against a well-funded adversary; and (c) could actually increase short-term uncertainty as federal courts develop, from scratch, a new body of law.

Finally, the DTSA's expansive protection for trade secrets may have the perverse effect of, at the margins, leading fewer companies to seek patents, which benefit innovation in ways trade secrets do not, because patents disclose the state of the art and, eventually, expire.

Best Practices

While the DTSA may transform the way—and the system in which—trade secrets are litigated, companies can and should protect themselves now by limiting the circle of distribution for proprietary information inside and outside the company; implementing strong non-disclosure policies; and developing physical and electronic safeguards to prevent theft by outsiders and departing employees. These steps are likely to help protect your most vital information, regardless of whether an issue arises under state or, eventually, federal law. ●

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