

Professors' Letter in Opposition to the Defend Trade Secrets Act of 2015
(S. 1890, H.R. 3326)

November 17, 2015

The Honorable Charles E. Grassley
Chairman
Judiciary Committee
United States Senate
224 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Robert W. Goodlatte
Chairman
Judiciary Committee
United States House of Representatives
2138 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Patrick J. Leahy
Ranking Member
Judiciary Committee
United States Senate
224 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable John Conyers, Jr.
Ranking Member
Judiciary Committee
United States House of Representatives
B-251 Rayburn House Office Building
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Dear Chairmen Grassley and Goodlatte, and Ranking Members Leahy and Conyers:

In August 2014, thirty-one law professors signed a letter in opposition to proposed federal legislation to create a civil cause of action for trade secret misappropriation.¹ We write to express continued concerns about the current version of this legislation, the Defend Trade Secrets Act of 2015 (“DTSA”), S. 1890 and H.R. 3326.² While we agree that effective legal protection for U.S. businesses’ legitimate trade secrets is important to American innovation, we believe that the DTSA—which would represent the most significant expansion of federal law in intellectual property since the Lanham Act in 1946—will not solve the problems identified by its sponsors. Instead of addressing cyberespionage head-on, passage of the DTSA is likely to create new problems that could adversely impact domestic innovation, increase the duration and cost of trade secret litigation, and ultimately negatively affect economic growth. **Therefore, the undersigned call on Congress to reject the DTSA.**

¹ Professors’ Letter in Opposition to the “Defend Trade Secrets Act of 2014” (S. 226) and the “Trade Secrets Protection Act of 2014” (H.R. 5233) (Aug. 26, 2014), *available at* <http://cyberlaw.stanford.edu/files/blogs/FINAL%20Professors%20Letter%20Opposing%20Trade%20Secret%20Legislation.pdf> [hereinafter “2014 Professors’ Letter”] and attached. This letter incorporates and expands upon the concerns raised in the 2014 Professors’ Letter.

² We understand that the House and Senate versions of this legislation are now substantively identical. For convenience, this letter cites to the provisions of the Senate version, S. 1890, 114th Cong. (2015) as introduced on July 29, 2015 [hereinafter “S. 1890”].

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Summary of Arguments

In recent years, numerous concerns about a federal civil cause of action for trade secret misappropriation have been detailed in analyses prepared by experts in the field of trade secret and intellectual property law.³ Fundamentally, these experts oppose the legislation because: (1) it will not address the cyberespionage problem that is most often used to justify the adoption of a federal trade secret law; (2) a federal trade secret law is not needed to protect U.S. trade secrets because there is already a robust set of state laws for the protection of such secrets; and (3) there are significant costs to creating a federal civil cause of action for trade secret misappropriation. In addition to these concerns, this letter details the following four specific reasons why the undersigned urge rejection of the 2015 Defend Trade Secrets Act.

1. **The DTSA's *Ex Parte* Seizure Provision May Harm Small Businesses, Startups and Other Innovators**
2. **The DTSA Appears to Implicitly Recognize The Inevitable Disclosure Doctrine**
3. **The DTSA Likely Will Increase the Length and Cost of Trade Secret Litigation**
4. **The DTSA Will Likely Result in Less Uniformity in Trade Secret Law**

We also urge Congress to **hold hearings** that focus on the costs of the legislation and whether the DTSA addresses the cyberespionage problem that it is allegedly designed to combat. Specifically, Congress should evaluate the DTSA **through the lens of employees, small businesses, and startup companies** that are most likely to be adversely affected by the legislation.

³ Contrary to the assertion that there is no opposition to the DTSA, a number of scholars and commentators have raised concerns about the DTSA's scope, efficacy and impact. See Eric Goldman, *Federal Trade Secret Bill Re-Introduced—And It's Still Troublesome*, Technology & Marketing Law Blog, <http://blog.ericgoldman.org/archives/2015/08/federal-trade-secret-bill-re-introduced-and-its-still-troublesome-guest-blog-post.htm> (Aug. 4, 2015); David S. Levine & Sharon K. Sandeen, *Open Letter to the Sponsors of the Revised Defend Trade Secrets Act*, <http://cyberlaw.stanford.edu/publications/open-letter-sponsors-revised-defend-trade-secrets-act> (Aug. 3, 2015); John Tanski, *The Defend Trade Secrets Act is Strong Medicine. Is It Too Strong?*, Nat'l L.J., Oct. 30, 2015, <http://www.law.com///sites/articles/2015/10/30/the-defend-trade-secrets-act-is-strong-medicine-is-it-too-strong/?slreturn=20150931104239>. Additional recent scholarship critical of proposals to create a federal civil cause of action for trade secret misappropriation include: 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); David S. Levine & Sharon K. Sandeen, *Here Come the Trade Secret Trolls*, 71 Wash. & Lee L. Rev. Online 230 (2015); Christopher B. Seaman, *The Case Against Federalizing Trade Secrecy*, 101 Va. L. Rev. 317 (2015).

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Detailed Arguments

1. The DTSA's *Ex Parte* Seizure Provision May Harm Small Businesses, Startups and Other Innovators

Like its predecessor bills, the current version of the DTSA contains a controversial provision authorizing a trade secret owner to obtain, on an *ex parte* basis, a court order to seize property that contains alleged trade secret information under certain circumstances.⁴ Although this provision is more limited in scope than prior proposals,⁵ it still contains significant potential to cause anti-competitive harm, particularly against U.S.-based small businesses, startups and other entrepreneurs. Moreover, proponents of the DTSA have argued that such a provision will not be frequently utilized, which raises the question: Why create a new remedy that is fraught with potential for abuse?

First, the DTSA's *ex parte* seizure provision is impermissibly vague. It is unclear from the statutory text what "property" may be seized "to prevent the propagation or dissemination" of the alleged trade secret. For example, if the alleged trade secret is computer source code, could the court order the seizure of all computer servers (and other electronic storage media, like flash drives) under the defendants' control that contains a copy of the code? Even with the requirement that the *ex parte* seizure order must "provide for the narrowest seizure of property necessary to achieve [these] purposes,"⁶ it may still result in significant harm to the alleged misappropriator's legitimate business operations.⁷

Second, the *ex parte* nature of the process for obtaining a seizure order means that an alleged misappropriator will be unable to immediately and meaningfully challenge the plaintiff's assertions regarding the alleged trade secret status of the information and the claimed misappropriation. As one commentator recently explained, "so much business information can potentially qualify as a trade secret that it is easy for unscrupulous plaintiffs

⁴ S. § 1890, § 2 (proposed for codification at 18 U.S.C. § 1836(b)(2)). For a more detailed critique of the infirmities of the *ex parte* seizure provision, see Eric Goldman, *Ex Parte Seizures and the Defend Trade Secrets Act*, 72 Wash. & Lee L. Rev. Online (forthcoming Nov. 2015).

⁵ Among other changes, the current version of the *ex parte* seizure provision would limit the scope of a seizure order to "property necessary to prevent the propagation or dissemination of the trade secret that is the subject of the action," *id.* (proposed for codification at 18 U.S.C. § 1836(b)(2)(A)(i)); it would add additional details regarding the required court hearing within seven days after the *ex parte* seizure is granted, *id.* (proposed for codification at 18 U.S.C. § 1836(b)(2)(F)); and it would require that the court take possession of the seized materials, *id.* (proposed for codification at 18 U.S.C. § 1836(b)(2)(D)). Like last year's DTSA, it also includes a provision allowing for an action for damages in the case of wrongful seizure. *Id.* (proposed for codification at 18 U.S.C. § 1836(b)(2)(G)).

⁶ *Id.* (proposed for codification at 18 U.S.C. § 1836(b)(2)(B)(ii)).

⁷ *Cf.* *Steve Jackson Games, Inc. v. U.S. Secret Service*, 816 F. Supp. 432 (W.D. Tex. 1993), *aff'd on other grounds*, 36 F.3d 457 (5th Cir. 1994) (seizure of computer server allegedly containing an item of stolen information caused significant collateral damage that permanently undermined the company's business).

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to manufacture trade secret claims and use them as strategic weapons.”⁸ Self-interested advocates seeking an *ex parte* seizure order are unlikely to point out potential weaknesses and/or complexities in their own case, such as the likelihood of reverse engineering and previous disclosures that may undermine the claim of secrecy. Indeed, because the defendant is absent from the courtroom, the court will lack knowledge of any relevant facts that would weigh against granting a seizure. As a result, the DTSA’s *ex parte* seizure provision is particularly pro-plaintiff.

Critically, because opposing an *ex parte* seizure order “is likely to be an extremely expensive process for both the courts and the parties, start-up companies that are sued by larger companies might very well capitulate rather than incur the expense” of challenging the plaintiff’s claims.⁹ As a result, “[t]he chilling effect on innovation and job growth . . . could be profound.”¹⁰ Especially as the DTSA fails to meaningfully address the cyberespionage problem repeatedly cited by its proponents, this reason alone suggests it should be rejected.¹¹

2. The DTSA Appears to Implicitly Recognize The Inevitable Disclosure Doctrine

The current version of the DTSA also contains new language regarding injunctive relief that appears to implicitly recognize the so-called inevitable disclosure doctrine. If accurate, this would represent a profound shift in both the law governing the enforceability of non-compete agreements and trade secrets, particularly in jurisdictions that do not currently recognize the doctrine.

Under the inevitable disclosure doctrine, “a plaintiff may prove a claim of trade secret misappropriation by demonstrating that defendant’s new employment will inevitably lead him to rely on the plaintiff’s trade secrets.”¹² “Inevitable disclosure is not a separate cause of action; rather, it is a means of proving misappropriation or irreparable harm for injunctive relief.”¹³ In states that recognize inevitable disclosure, the typical remedy is to enjoin the

⁸ Tanski, *supra* note 3.

⁹ Levine & Sandeen, *Open Letter to the Sponsors of the Revised Defend Trade Secrets Act*, *supra* note 3, at 2.

¹⁰ Levine & Sandeen, *Here Come the Trade Secret Trolls*, *supra* note 3, at 255; *see also* Tanski, *supra* note 3 (explaining that “[t]he DTSA’s seizure provision—which effectively allows the plaintiff to petition the court, in secret, to shut down the defendant’s business for up to a week—creates significant business risk”). Importantly, other avenues for preliminary relief would still remain open to trade secret holders, including temporary restraining orders (TROs), preliminary injunctions, takedown notices under the Digital Millennium Copyright Act, and *ex parte* seizures under the Lanham Act.

¹¹ For further discussion of the DTSA’s negative impact on cybersecurity and its failure to address cyberespionage, *see* David S. Levine, *School Boy’s Tricks: Reasonable Cybersecurity and the Panic of Law Creation*, 72 Wash & Lee L. Rev. Online (forthcoming 2015).

¹² *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262, 1269 (7th Cir. 1995).

¹³ *Seaman*, *supra* note 3, at 366.

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departing employee from commencing employment until the subject trade secret information is no longer a trade secret. As Professor Elizabeth Rowe has explained, “[t]he inevitable disclosure doctrine is controversial primarily because . . . at its core, it appears to go against a fundamental tenet of employment law: the at-will doctrine.”¹⁴

The current version of the DTSA contains language that could reasonably be interpreted to endorse the inevitable disclosure doctrine as a matter of federal law. The DTSA provides that a court may grant an injunction “to prevent any actual or threatened misappropriation . . . on such terms as the court deems reasonable, *provided the order does not prevent a person from accepting an offer of employment under conditions that avoid actual or threatened misappropriation.*”¹⁵ The italicized language implies that if there are no conditions that would effectively prevent a departing employee from engaging in “actual or threatened misappropriation” once he or she has started working for a new employer, then the district court may grant an injunction prohibiting the employee from accepting the new position.

Federal recognition of the inevitable disclosure doctrine would be troubling because “a rising number of empirical studies . . . suggest that lesser constraints on employee mobility may increase economic growth and innovation.”¹⁶ It would also contradict the long-standing public policy of jurisdictions like California that reject the inevitable disclosure doctrine as a matter of state law, and that have benefitted greatly from employee mobility.¹⁷ In such jurisdictions, trade secret holders seeking an injunction against departing employees would simply invoke federal law, thus effectively rendering the state law inoperative. In sum, the risk that putative trade secret holders—particularly incumbent firms—could prevent individuals from being able to feed their families through this controversial doctrine, and also misuse this provision against small businesses and startups, counsel rejection of the DTSA.

3. The DTSA Likely Will Increase the Length and Cost of Trade Secret Litigation

In addition, the DTSA likely will increase the length and cost of trade secret litigation, thus further exacerbating the DTSA’s negative impact on small businesses and startups. Specifically, the DTSA would grant federal courts original (but not exclusive) jurisdiction

¹⁴ Elizabeth A. Rowe, *When Trade Secrets Become Shackles: Fairness and the Inevitable Disclosure Doctrine*, 7 Tul. J. Tech. & Intell. Prop. 167, 183 (2005).

¹⁵ S. 1890, § 2 (proposed for codification at 18 U.S.C. § 1836(b)(3)) (emphasis added).

¹⁶ On Amir & Orly Lobel, *Driving Performance: A Growth Theory of Noncompete Law*, 16 Stan. Tech. L. Rev. 833, 837-38 (2013).

¹⁷ See *Whyte v. Schlage Lock Co.*, 125 Cal. Rptr. 2d 277, 291-94 (Ct. App. 2002) (rejecting inevitable disclosure under California law).

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over civil trade secret claims.¹⁸ To establish federal jurisdiction, a trade secret plaintiff suing under the DTSA would have to show that the alleged trade secret is “related to a product or service used in, or intended for use in, interstate or foreign commerce.”¹⁹ Although this provision is apparently broad in scope, “it obviously does not (and cannot) describe all U.S. trade secret information, as not all trade secrets are necessarily ‘related to a product or service . . . used in . . . commerce,’ like many customers lists.”²⁰ At a minimum, the trade secret plaintiff would have to demonstrate to the court’s satisfaction, likely early in the case, that the alleged trade secrets satisfy this jurisdictional requirement which is demanded by the Commerce Clause of the U.S. Constitution. This would both delay the case and result in increased costs in litigating the issue.

Another reason that the DTSA may increase the cost of trade secret litigation is the broad scope of discovery permitted under the Federal Rules of Civil Procedure. Discovery in trade secret litigation is already very expensive; a recent survey of IP lawyers found that median litigation costs through the end of discovery ranged from \$250,000 in cases where less than \$1 million was at stake, to over \$1.6 million in cases where over \$25 million was at risk.²¹ The stringent pleading requirements and liberal discovery standards of federal courts, and electronic discovery, may exacerbate this problem. These cost concerns also call for the DTSA’s abandonment.

4. The DTSA Will Likely Result in Less Uniformity in Trade Secret Law

Lastly, DTSA’s sponsors contend that its adoption would “[h]armonize U.S. law” and “create a uniform standard for trade secret misappropriation.”²² Yet, in reality, the law would be adopted against the backdrop of the non-existence of any federal jurisprudence regarding a civil trade secret claim.²³ Moreover, a careful examination of the bill’s provisions, reveal that the DTSA would in fact result in *less* uniformity in trade secrets law than currently exists.

¹⁸ S. 1890, § 2 (proposed for codification at 18 U.S.C. § 1836(c)). For a fuller discussion of these issues, see Sharon K. Sandeen, *DTSA: The Litigator's Full-Employment Act*, 72 Wash & Lee L. Rev. Online (forthcoming 2015).

¹⁹ *Id.* (proposed for codification in 18 U.S.C. § 1836(b)(1)).

²⁰ 2014 Professors’ Letter, *supra* note 1, at 3.

²¹ Am. Intellectual Prop. Law Ass’n, Report of the Economic Survey 2015, at 39, I-166, I-169 (2015).

²² Press Release, *Senate, House Leaders Introduce Bipartisan, Bicameral Bill to Protect Trade Secrets* (July 29, 2015), <http://www.hatch.senate.gov/public/index.cfm/2015/7/senate-house-leaders-introduce-bipartisan-bicameral-bill-to-protect-trade-secrets>; see also Letter from Association of Global Automakers, Inc. et al., to the Honorable Orrin Hatch et al. (July 29, 2015), available at <http://www.hatch.senate.gov/public/cache/files/09ce963b-6166-4156-b924-ab1c7f4098f5/DTSA%20Senate%20Support%20Letter.pdf> (“The Defend Trade Secrets Act will create a harmonized, uniform standard and system for companies to protect their trade secrets.”).

²³ See Sharon K. Sandeen, *The Evolution of Trade Secret Law: Why Courts Commit Error When They Do Not Follow the UTSA*, 33 Hamline L. Rev. 493(2010) (explaining that in the 1960s there were several proposals to adopt a

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As explained in the 2014 Professors' Letter, "[t]here is already a robust and uniform body of state law governing the protection of trade secrets in the United States."²⁴ The Uniform Trade Secrets Act ("UTSA") has been adopted by 47 of 50 states,²⁵ and many U.S. businesses have successfully used the UTSA for decades to combat trade secret misappropriation. Indeed, even advocates of a federal civil cause of action for trade secret misappropriation acknowledge that the UTSA helped create a "coherent and consistent body of trade secrets law"²⁶ that has resulted in "greater consistency in the application of trade secret law and in the laws themselves."²⁷ As a result, this well-established, substantially uniform body of law has a high level of predictability for U.S. businesses and their attorneys.

The DTSA would undermine this high degree of uniformity by creating new differences with existing state law and by requiring the development of a new body of federal jurisprudence. For example, the vast majority of states have adopted a three-year statute of limitations for aggrieved businesses and individuals to bring trade secret claims.²⁸ The DTSA has a five-year statute of limitations.²⁹ The DTSA would also accept, without change, the existing Economic Espionage Act's ("EEA") definition of a trade secret, which is broader in several respects than the UTSA.³⁰ Also, as previously mentioned, the DTSA appears to endorse a new barrier to mobility of labor by recognizing the so-called inevitable

federal trade secret law but also concerns about the absence of federal jurisprudence on the subject, thereby leading to the drafting of the UTSA instead).

²⁴ 2014 Professors' Letter, *supra* note 1, at 2; *see also* TianRui Group Co. v. Int'l Trade Comm'n, 661 F.3d 1322, 1327 (Fed. Cir. 2011) ("[T]rade secret law varies little from state to state and is generally governed by widely recognized authorities such as . . . the Uniform Trade Secrets Act.").

²⁵ *See* Seaman, *supra* note 3, at 391-92 (detailing each state's adoption of the UTSA). New York generally follows the *Restatement (Third) of Unfair Competition*, which is largely based upon the UTSA. *See Wiener v. Lazard Freres & Co.*, 241 A.D.2d 114, 124, 672 N.Y.S.2d 8, 15 (1st Dep't 1998) (applying *Restatement (Third) of Unfair Competition* to define a trade secret in New York). Massachusetts trade secret law is based in small part on statutory law and in large part on common law that is consistent with what is expressed in the *Restatement (Third) of Unfair Competition*. *See* Mass. Gen. Laws Ann. ch. 93, §§ 42 to 42A and Mass. Gen. Laws Ann. ch. 266, § 30(4). North Carolina has adopted a statute that codifies many of the key principles UTSA. *See* N.C. Gen. Stat. § 66-152 *et seq.* (2014).

²⁶ R. Mark Halligan, *Protection of U.S. Trade Secret Assets: Critical Amendments to the Economic Espionage Act of 1996*, 7 J. Marshall Rev. Intell. Prop. L. 656, 670 (2008).

²⁷ David S. Almeling, *Seven Reasons Why Trade Secrets Are Increasingly Important*, 27 Berkeley Tech. L.J. 1091, 1106 (2012).

²⁸ Seaman, *supra* note 3, at 393-94.

²⁹ S. 1890, § 2 (proposed for codification at 18 U.S.C. § 1836(d)).

³⁰ Seaman, *supra* note 3, at 361-62. For discussion of the broad trade secret definition under the EEA, see Rochelle Dreyfuss and Orly Lobel, *Economic Espionage as Reality or Rhetoric: Equating Trade Secrecy with National Security* (on file with authors).

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disclosure doctrine, even though a number of UTSA jurisdictions have expressly rejected this ill-conceived doctrine.³¹

Most significantly, the DTSA expressly declines to preempt existing law regarding trade secrets because the jurisdictional requirement could not possibly cover all trade secret claims.³² This will permit a federal civil cause of action for trade secret misappropriation to exist in parallel with state law, possibly in the same lawsuit. Thus, in a trade secret dispute, the trade secret holder would seek to invoke whichever law—federal or state—appears most favorable under the circumstances. This would encourage forum-shopping and cause choice-of-law problems that are widely recognized as undesirable, and would not advance the fight against cyberespionage. This further underscores that the DTSA should be rejected.

* * *

For these reasons, the undersigned law professors **urge Congress to reject the DTSA**. In addition, as requested in the 2014 Professors' Letter,³³ we call for your Committees to **schedule full hearings** so that the informed opinions of all sides—both proponents and opponents—can be fully discussed and challenged in an open forum. Importantly, hearings should not be limited simply to denouncing cyberespionage against U.S. companies, which we agree is a problem. Rather, **the hearings should focus on the costs of the legislation, as well as whether the DTSA addresses the cyberespionage problem that it is allegedly designed to combat**. In particular, we call for Congress to **evaluate the DTSA through the lens of employees, small businesses, and startup companies that are most likely to be adversely affected by the legislation**.

You may address any reply or correspondence to its authors and organizers, Professor Eric Goldman (egoldman@gmail.com), Professor David S. Levine (dsl2@princeton.edu), Professor Sharon K. Sandeen (ssandeen@hamline.edu), and Professor Christopher B. Seaman (seamanc@wlu.edu).

³¹ See, e.g., *Whyte v. Schlage Lock Co.*, 125 Cal. Rptr. 2d 277 (Ct. App. 2002); *LeJeune v. Coin Acceptors, Inc.*, 849 A.2d 451 (Md. 2004). For further discussion of labor mobility issues in the technology sector, see AnnaLee Saxenian, *Regional Advantage: Culture and Competition in Silicon Valley and Route 128* (Cambridge, MA: Harvard University Press), 1994).

³² See S. 1890, § 2 (proposed for codification at 18 U.S.C. § 1839(f)) (“Nothing in the amendments made by this section shall be construed to . . . preempt any other provision of law.”).

³³ 2014 Professors' Letters, *supra* note 1, at 7.

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**Professors' Letter in Opposition to the
"Defend Trade Secrets Act of 2014" (S. 2267) and the
"Trade Secrets Protection Act of 2014" (H.R. 5233)**

August 26, 2014

To the sponsors of the above-referenced legislation and other Members of the United States Congress:

The undersigned are 31 professors from throughout the United States who teach and write extensively about intellectual property law, trade secret law, innovation policy and/or information law.¹ We urge Congress to reject the proposed legislation to create a new private cause of action under the Economic Espionage Act of 1996 ("EEA"),² known as the "Defend Trade Secrets Act of 2014" ("DTSA") and the "Trade Secrets Protection Act of 2014" ("TSPA," collectively, "the Acts"). As explained in Senator Coons' press release announcing the introduction of the DTSA,

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.³

While we acknowledge the need to increase protection both domestically and internationally against domestic and foreign cyber-espionage, this is not the way to address those concerns. Instead, as explained below, the Acts will create or exacerbate many existing legal problems but solve none. Accordingly, we oppose their adoption.

¹ Many of the signatories to this letter also have extensive intellectual property litigation experience in state and federal courts, including trade secret litigation.

² 18 U.S.C. § 1830 *et seq.* (2014).

³ Press Release, *Senators Coons, Hatch introduce bill to combat theft of trade secrets and protect jobs*, Office of Senator Christopher Coons (April 29, 2014), available at <http://www.coons.senate.gov/newsroom/releases/release/senators-coons-hatch-introduce-bill-to-combat-theft-of-trade-secrets-and-protect-jobs>.

The Acts should be rejected for five primary reasons:

1. Effective and uniform state law already exists.

United States trade secret law was developed and is applied against a backdrop of related state laws and legal principles that reflect the values and interests of individual states, particularly with respect to issues of employee mobility and free competition. There is already a robust and uniform body of state law governing the protection of trade secrets in the United States, the Uniform Trade Secrets Act (“UTSA”), which has been adopted by 47 of 50 states.⁴ Built on over 100 years of case law, numerous US companies have used it with success to combat trade secret misappropriation by both employees and non-employees. Similarly, criminal prosecutions under the existing EEA are increasing and are addressing the concerns motivating introduction of the Acts.⁵

This deep body of state law creates its own benefits; as the general principles of US trade secret law are well-established and substantially uniform, there is a high level of predictability by and for US businesses and their attorneys. But because the Acts cannot entirely preempt state trade secret law (for reasons that are explained below), they will result in confusion, as well as less uniformity and predictability. As a result, the business community will suffer from decreased predictability in the law with, as discussed below, no corresponding benefits.

⁴ North Carolina has adopted a statute that is substantially similar to the UTSA. See N.C. Gen. Stat. § 66-152 *et seq.* (2014). New York generally follows the Restatement (Third) of Unfair Competition (which is largely based upon the UTSA). See *Wiener v. Lazard Freres & Co.*, 241 A.D.2d 114, 124, 672 N.Y.S.2d 8, 15 (1st Dep’t 1998) (applying Restatement (Third) of Unfair Competition to define a trade secret in New York). Massachusetts trade secret law is based in small part on statutory law and in large part on common law that is consistent with what is expressed in the Restatement (Third) of Unfair Competition. See Mass. Gen. Laws Ann. ch. 93, §§ 42 to 42A and Mass. Gen. Laws Ann. ch. 266, § 30(4).

⁵ See Webinar Press Release, *Combating Trade Secret Theft: What Every Company Should Know about the EEA and CFAA*, Ballard Spahr LLP (April 24, 2014), available at <http://www.ballardspahr.com/eventsnews/events/2014-04-24-combating-trade-secret-theft.aspx> (asserting that “the U.S. government has made combating corporate and state-sponsored trade secret theft a top priority, and both the [Department of Justice] and [Federal Bureau of Investigation] have increased their investigations and prosecutions of it.”); see also Indictment, *United States v. Wang Dong et al.*, Crim. No. 14-118 (W.D. Pa. May 1, 2014) (criminally charging five members of China’s People’s Liberation Army with economic espionage and computer hacking).

2. The Acts will damage trade secret law and jurisprudence by weakening uniformity while simultaneously creating parallel, redundant and/or damaging law.

Generally, the Commerce Clause of the United States Constitution⁶ gives Congress power to legislate trade secret law, but Congress' power is limited.⁷ To address this limitation, the Acts require a convoluted and untested jurisdictional clause that currently states that the law would only apply to trade secrets that are "related to a product or service used in or intended for use in, interstate or foreign commerce." While the precise meaning of this clause is unclear and unsettled, it obviously does not (and cannot) describe all US trade secret information, as not all trade secrets are necessarily "related to a product or service ... used in ... commerce," like many customer lists. Accordingly, the Acts will not supplant state law and we expect that the bulk of trade secret claims will still be based upon state law.

Moreover, even under the Acts, ancillary state law will still apply with respect to a number of important issues. Primary among them are ownership of inventions, definitions and obligations of confidential relationships, and enforceability of non-compete agreements. If the concern is preservation of evidence and enforceability of judgments, the US already has a rich body of law and procedure that solves most of these problems, including the diversity jurisdiction of federal courts, multi-district litigation procedures, cross-border discovery procedures, and cross-border enforcement procedures. Additionally, it is worth noting that the Acts cannot and do not address the significant systemic challenges associated with getting jurisdiction over and enforcing judgments against foreign entities, infirmities which, standing alone, should cause Congress to pause.

The Acts' seizure provisions require special attention. The DTSA's provisions that would authorize motions to preserve evidence and seize property are not necessary in light of the broad discretion that federal courts already have under the Federal Rules of Civil Procedure⁸ to grant temporary restraining orders *ex parte* and would arguably

⁶ U.S. CONST., Art. I, § 8, cl. 3.

⁷ See *The Trademark Cases*, 100 U.S. 82 (1879) (Congress has limited powers to legislate under the Commerce Clause).

⁸ See FRCP 65 (2014).

interfere with the Rules Enabling Act process.⁹ Moreover, litigants can already request preliminary relief in trade secret cases and there are severe consequences for the destruction of evidence under existing law and rules of professional conduct.

Similarly, the TSPA's provision, while not as broad as the DTSA's, acknowledges but fails to ameliorate the problems and risks associated with seizure. First, the TSPA specifies that such relief is only available upon a showing that the preliminary relief that is available under FRCP Rule 65(b) is inadequate, a threshold that we believe will be difficult to establish, thereby making the provision superfluous. Second, the required showing is nearly identical to the standards that federal courts currently apply when deciding whether to grant preliminary relief, but with the odd additional requirement that "the applicant has not publicized the requested seizure." The purpose of this requirement and the provision requiring "protection from publicity" is unclear, but we are concerned that the TSPA requires a level of secrecy about court rulings that is unprecedented. The required procedures and findings are also bound to impose great burdens on the federal courts, and like the problems with the jurisdictional clause discussed above, arguably put trade secrets at greater risk. Of even greater concern (for reasons that are explained below), we are concerned about the anti-competitive effects of the seizure remedy.

Therefore, the Acts will exacerbate rather than solve the perceived problem of a lack of uniform state law, with no corresponding benefits and several significant drawbacks.

3. The Acts are imbalanced and could be used for anti-competitive purposes.

A hallmark of all US intellectual property laws, including trade secret law, is that they include limiting doctrines that are designed to achieve the appropriate balance between the protection of intellectual property rights and the preservation of free competition. While the Acts appropriately define "improper means" not to include the acts of reverse engineering and independent derivation, other limits on the scope of trade secret protection are missing. In particular, we note that the Acts do not explicitly limit the length of injunctive relief to the period of lead-time advantage, a critical limit on potentially interminable injunctions that can prevent fair competition, employee mobility and new innovation. Additionally, the seizure provisions of both Acts, but

⁹ See 28 U.S.C. § 2072 (2014).

particularly of the DTSA, introduce a new form of preliminary relief that is fraught with potential misuse due to the fact that such relief could be granted *ex parte*, without either notice to or an opportunity to be heard by the defendant(s). Both of these failures could render the Acts a weapon of anti-competition and societal damage with, again, no corresponding benefits.

4. The Acts increase the risk of accidental disclosure of trade secrets.

Because of the jurisdictional issue discussed in Point Two, there will likely be many motions to dismiss for lack of subject matter jurisdiction that, as a practical matter, will require the plaintiff to identify and disclose its trade secrets early in the litigation. But under all existing US trade secret law, the understandable common plaintiff strategy is to delay the identification and disclosure of trade secrets until the latest possible moment due to the heightened disclosure risk that comes from even the confidential sharing of information. Thus, if the existence and nature of the alleged trade secrets are necessary to establish jurisdiction under the Acts, defendants in trade secret cases will be justified in demanding earlier disclosure of the alleged trade secrets. This will result in a greater risk of accidental disclosure of the trade secrets and slow down the litigation process, with, again, no corresponding benefits.

5. The Acts have potential ancillary negative impacts on access to information, collaboration among businesses and mobility of labor.

While the Acts appear to be ineffective and/or unnecessary in combatting actual cyber-espionage and other misappropriation, they may have more impact on the negative side of the equation, namely, as an additional weapon to prevent public and regulatory access to information, collaboration amongst businesses, and mobility of labor. Although not often linked, there is a direct relationship between availability of trade secret misappropriation claims and regulatory access to information. Labeling information as a trade secret has become a common way to prevent public and even regulatory access to important information ranging from the composition of hydraulic fracturing fluids to the code inside of voting machines, all of which have compelling (but not uncontroversial) reasons for public access in a democracy. These access to information issues – which do not necessarily correlate with support for or opposition to the subject activities or industries – are exacerbated even by otherwise ineffective trade secret law.

The threat of a trade secret misappropriation action can and does have a chilling effect on collaborative innovation efforts between businesses and can be used by those who would rather compete in a courtroom than the marketplace to quell legitimate competition. Adding a new remedy that allows companies to seek preliminary relief to seize wide swaths of property (including computer networks and servers) would only heighten the risk that trade secret litigation will be used as an anti-competitive tool.¹⁰

Lastly, the importance of employee mobility to the strength and growth of our economy cannot be overstated. Reducing mobility of labor impacts not only those employees who are directly affected, but their new employers and the families of the affected employees. It also has an adverse impact on society by reducing the diffusion of skills and knowledge and stifling the innovation that flows from the sharing of ideas and information. State law currently protects employee mobility; the Acts do not.

If Congress is going to further strengthen arguments against access to information and simultaneously further limit mobility of labor and potential innovative collaboration, as adding yet another potential (even if ineffectual) trade secret misappropriation cause of action to the books would do, it should be because the benefits of such a cause of action outweigh the costs. Here, as previously discussed, the benefits are nonexistent. Therefore, the ancillary costs are not nearly outweighed; in fact, the scale leans decidedly to one side.

In sum, Congress is rightly concerned about cyber-espionage by foreign countries and foreign business interests, but adding to well-established domestic trade secret law to address such concerns is incomplete, ill-advised, and potentially dangerous. The Acts are incomplete solutions because the definition of a trade secret

¹⁰ The Acts' seizure provisions are eerily similar to the problematic provisions in copyright law's failed Stop Online Piracy Act ("SOPA") and Preventing Real Online Threats to Economic Creativity and Theft of Intellectual Property Act ("PIPA"). SOPA and PIPA were intended to combat online copyright infringement, but were never passed in large part because of problematic provisions related to removal of allegedly infringing websites from the Internet. See Mark Lemley, David S. Levine and David Post, *Don't Break the Internet*, 64 STAN. L. REV. ONLINE 34 (Dec. 19, 2011) ("Websites can be 'completely removed from circulation'—rendered unreachable by, and invisible to, Internet users in the United States and abroad—immediately upon application by the government, without *any* reasonable opportunity for the owner or operator of the website in question to be heard or to present evidence on his or her own behalf. This falls far short of what the Constitution requires before speech can be eliminated from public circulation") (emphasis in original).

under US (and international law) is limited and does not protect all of the information that may be the subject of cyber-espionage, or even all of the information that many businesses believe are trade secrets. The Acts are ill-advised because they focus on trade secret misappropriation instead of the bad acts of cyber-espionage and foreign espionage – *which is where Congress should focus its legislative efforts*.¹¹ Finally, the Acts are dangerous because the many downsides explained above have no – not one – corresponding upside.

Thus, for all of the above reasons, we oppose the Acts and urge their rejection. Additionally, if not withdrawn, we ask Congress to schedule full hearings so that our views, and all others, can be fleshed out, challenged and discussed in an open forum. The important issues that you are trying to address require and deserve more deliberation and input. While we recognize that there have already been some hearings, the specific language of the Acts, their effectiveness and their ramifications must be discussed and debated in public hearings.

With regard to this letter, you may address any reply or correspondence to its authors and organizers, Professor David S. Levine (dsl2@princeton.edu) and Professor Sharon K. Sandeen (ssandeen@hamline.edu).

Signed,¹²

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¹¹ See, e.g., Sharon K. Sandeen, *The Third Party Problem: Assessing the Protection of Information through Tort Law*, in INTELLECTUAL PROPERTY PROTECTION OF FACT-BASED WORKS (Robert F. Brauneis, ed., 2009) (discussing ways to combat bad acts that do not depend on the IP status of the underlying information).

¹² All institutions are listed for identification purposes only and the signatories do not speak for or on behalf of their respective institutions.

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