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Introduction: The Defend Trade Secrets Act of 2015

Christopher B. Seaman*

Trade secrecy is unique among the major intellectual property (IP) doctrines because it is governed primarily by state rather than federal law.¹ At present, the only generally applicable federal law expressly designed to combat the theft of trade secrets—the Economic Espionage Act (EEA)—is criminal rather than civil in nature.² In contrast, all fifty states recognize a civil cause of action for trade secret misappropriation, the vast majority of which have enacted the Uniform Trade Secrets Act (UTSA).³

* Associate Professor of Law and Ethan Allen Faculty Fellow, Washington and Lee University School of Law. I thank the Editorial Board of the *Washington and Lee Law Review* for their willingness to publish a Roundtable on this important issue. I am particularly grateful to the Managing Online Editors, Alyson M. Cox and Emily E. Tichenor, for their efforts in organizing and editing the contributions to this Roundtable.

1. See *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 493 (1974) (“Congress, by its silence over these many years, has seen the wisdom of allowing the States to enforce trade secret protection.”); David S. Almeling, *Four Reasons to Enact a Federal Trade Secrets Act*, 19 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 769, 770 (2009) (“Trade secrets stand alone as the only major type of intellectual property governed primarily by state law.”). The other major forms of intellectual property—patents, copyrights, and trademarks—are protected predominantly or exclusively by federal law. See, e.g., ROBERT P. MERGES, PETER S. MENELL & MARK A. LEMLEY, *INTELLECTUAL PROPERTY IN THE NEXT TECHNOLOGICAL AGE* 26–27 tbl. 1-1 (6th ed. 2012).

2. Pub. L. No. 104-294, 110 Stat. 3488 (1996) (codified as amended at 18 U.S.C. §§ 1831–32 (2012)). The Trade Secrets Act, 18 U.S.C. §§ 1905–09 (2012), makes it a misdemeanor offense for federal officials and employees to publicly disclose trade secret information learned during their official duties; this statute does not apply to private parties.

3. UNIF. TRADE SECRETS ACT (NAT’L CONFERENCE OF COMM’RS ON UNIF. STATE LAWS 1979) (amended 1985). Currently, forty-seven states, as well as the U.S. territories of Puerto Rico and the U.S. Virgin Islands, have adopted the UTSA, with some states modifying portions of the model statute’s provisions. See Christopher B. Seaman, *The Case Against Federalizing Trade Secrecy*, 101 VA. L. REV. 317, 329, 391–92 (2015) (listing the jurisdictions that have adopted the UTSA and its effective date in each jurisdiction); see also UNIF. LAW COMM’N,

The proposed Defend Trade Secrets Act of 2015 (DTSA) would substantially increase federal involvement in the realm of trade secrecy by amending the EEA to create a private civil cause of action for misappropriation.⁴ If enacted, the DTSA would represent the most significant expansion of federal law in IP since the Lanham Act of 1946.⁵ While the idea of a federal civil cause of action for trade secret theft is not new,⁶ it appears to be gaining increased support in Congress,⁷ at least in part because of recent allegations of widespread electronic theft by foreign actors and entities.⁸

Trade Secrets Act: Enactment Status Map,
<http://www.uniformlaws.org/Act.aspx?title=Trade%20Secrets%20Act>
 (last visited Nov. 16, 2015).

4. See S. 1890, 114th Cong. § 2(a) (2015) (proposed for codification at 18 U.S.C. § 1836(b)(1)) (providing that “[a]n owner of a trade secret may bring a civil action under this subsection if the person is aggrieved by a misappropriation of a trade secret that is related to a product or service used in, or intended for use in, interstate or foreign commerce”); H.R. 3326, 114th Cong. §2(a) (2015) (same). As of November 23, 2015, the House and Senate versions of this legislation are identical. Thus, this Introduction will cite only to the Senate version.

5. Lanham Act, Pub. L. No. 79-489, 60 Stat. 427, 429–30 (1946) (codified at 15 U.S.C. §§ 1051 *et seq.*).

6. See, e.g., 142 CONG. REC. 27111–12 (1996) (statement of Sen. Arlen Specter) (contending that “available civil remedies may not be adequate to the task” of combating trade secret theft and asserting that “a Federal civil cause of action is needed”); MARGARET M. BLAIR & STEVEN M. H. WALLMAN, UNSEEN WEALTH: REPORT OF THE BROOKINGS TASK FORCE ON INTANGIBLES 81 (2001) (recommending that “Congress enact a ‘Federal Trade Secret Act’ (FTSA), by virtue of its authority under the Commerce Clause”); Sharon K. Sandeen, *The Evolution of Trade Secret Law and Why Courts Commit Error When They Do Not Follow the Uniform Trade Secrets Act*, 33 HAMLIN L. REV. 493, 505–07 (2010) (discussing proposed federal legislation in the 1950s and 1960s to create a statutory cause of action for those injured as a result of unfair competition, such as trade secret theft); Comment, *Theft of Trade Secrets: The Need for a Statutory Solution*, 120 U. PA. L. REV. 378, 396–401 (1971) (calling for federal legislation with civil and criminal remedies for trade secret misappropriation).

7. As of November 23, 2015, the DTSA has eighty-two co-sponsors in the House and fourteen co-sponsors in the Senate.

8. See generally COMM’N ON THE THEFT OF AM. INTELLECTUAL PROP., THE IP COMMISSION REPORT 1 (2013), http://ipcommission.org/report/IP_Commission_Report_052213.pdf; OFFICE OF THE NAT’L COUNTERINTELLIGENCE EXEC., FOREIGN SPIES STEALING US ECONOMIC SECRETS IN CYBERSPACE: REPORT TO CONGRESS ON FOREIGN ECONOMIC COLLECTION AND INDUSTRIAL ESPIONAGE, 2009–2011 (2011), http://www.ncix.gov/publications/reports/fecie_all/Foreign_Economic_Collection_2011.pdf. Many of these instances of alleged trade secret theft purportedly have

In addition to a private federal cause of action, the DTSA would create a new *ex parte* remedy for trade secret owners authorizing “the seizure of property necessary to prevent the propagation or dissemination of the trade secret that is the subject of the action.”⁹ The district court may grant a seizure request if the trade secret owner satisfies a number of criteria, including demonstrating (1) that it is likely to establish the existence of a trade secret and misappropriation by the party against whom the seizure is ordered; (2) that “immediate and irreparable injury will occur” absent a seizure; (3) that the balance of harms weighs in favor of the trade secret owner; and (4) that a temporary restraining order under Federal Rule of Civil Procedure 65(b) would be inadequate because the relevant party “would evade, avoid, or otherwise not comply with such an order.”¹⁰ If a seizure order is granted on an *ex parte* basis, the district court would be required to conduct a hearing to determine whether the order should be modified or dissolved within seven days after its issuance.¹¹ The DTSA would also create a cause of action for a party “who suffers damage by reason of a wrongful or excessive seizure.”¹²

The DTSA would permit trade secret owners to seek injunctive relief “to prevent actual or threatened

originated from China. See COMM’N ON THE THEFT OF AM. INTELLECTUAL PROP., *supra*, at 15 (“For almost all categories of IP theft, currently available evidence and studies suggest that between 50% and 80% of the problem, both globally and in the United States, can be traced back to China.”); MANDIANT, APT1: EXPOSING ONE OF CHINA’S CYBER ESPIONAGE UNITS 3, 25 (2013), http://intelreport.mandiant.com/Mandiant_APT1_Report.pdf (asserting that a unit of the China’s People’s Liberation Army electronically infiltrated dozens of organizations and accessed a “broad range of information from its victims,” including product development information, manufacturing procedures, business plans, and other valuable data); 161 CONG. REC. S7251 (Oct. 8, 2015) (statement by Sen. Orrin Hatch) (alleging that “cyber theft of trade secrets is at an alltime high, particularly as it involves Chinese competitors”).

9. S. 1890 § 2(a) (proposed for codification at 18 U.S.C. § 1836(b)(2)(A)(i)).

10. *Id.* (proposed for codification at 18 U.S.C. § 1836(b)(2)(A)(ii)). The DTSA would also require that the *ex parte* seizure application “describe with reasonable particularity the matter to be seized” and “identif[y] the location where the matter is to be seized.” *Id.* (proposed for codification at 18 U.S.C. § 1836(b)(2)(A)(ii)(V)).

11. *Id.* (proposed for codification at 18 U.S.C. §§ 1836(b)(2)(B)(iv), 1836(b)(2)(F)).

12. *Id.* (proposed for codification at 18 U.S.C. § 1836(b)(2)(H)).

misappropriation . . . on such terms as the court deems reasonable,” provided that the injunction “does not prevent a person from accepting an offer of employment under conditions that avoid actual or threatened misappropriation.”¹³ It also would authorize the award of monetary damages for the actual loss caused by the misappropriation and the misappropriator’s unjust enrichment, or—in the alternative—a reasonable royalty for the misappropriator’s disclosure or use of the trade secret.¹⁴ In addition, punitive damages up to three times the amount of compensatory damages and reasonable attorney’s fees may be granted by the court for willful and malicious misappropriation.¹⁵

The DTSA would adopt a definition of misappropriation that is substantively similar to the UTSA.¹⁶ It also would impose a five-year statute of limitations for the filing of misappropriation claims,¹⁷ which is longer than the limitations period for most state trade secret laws.¹⁸ Original jurisdiction for misappropriation claims under the DTSA would lie in the district courts.¹⁹ Finally, the DTSA would not preempt any other federal or state laws.²⁰

The DTSA was introduced simultaneously in the House and Senate on July 29, 2015 and is currently pending before the Judiciary Committee in both chambers. Supporters of the bill include a number of high-technology and manufacturing firms,²¹

13. *Id.* (proposed for codification at 18 U.S.C. § 1836(b)(3)(A)(i)).

14. *Id.* (proposed for codification at 18 U.S.C. § 1836(b)(3)(B)(i)–(ii)).

15. *Id.* (proposed for codification at 18 U.S.C. § 1836(b)(3)(C)–(D)). The DTSA also would authorize an award of reasonable attorney’s fees if a claim of misappropriation was made in bad faith or if a motion to terminate an injunction was made or opposed in bad faith. *Id.*

16. Compare UNIF. TRADE SECRETS ACT § 1(1)–(2) (NAT’L CONFERENCE OF COMM’RS ON UNIF. STATE LAWS 1979) (amended 1985), with S. 1890 § 2(b) (proposed for codification at 18 U.S.C. § 1839(5)–(6)).

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

18. See Seaman, *supra* note 3, at 393–94 app. B.

19. S. 1890 § 2(a) (proposed for codification at 18 U.S.C. § 1836(c)).

20. See *id.* § 2(f) (“Nothing in the amendment made by this section shall be construed to modify the rules of construction under section 1838 of title 18, United States Code, or to preempt any other provision of law.”).

21. See Letter from Ass’n of Glob. Automakers, Inc. et al., to the Hon. Orrin Hatch et al. (July 29, 2015), reprinted in 161 CONG. REC. S7253 (Oct. 8, 2015) (listing support for the bill from 30 organizations and companies, including Boeing, Caterpillar, General Electric, IBM, Intel, Johnson & Johnson, Nike,

the U.S. Chamber of Commerce,²² and the Section of Intellectual Property Law of the American Bar Association.²³ Opponents of the DTSA include numerous law professors who teach, research, and write in the area of intellectual property law.²⁴

This Roundtable is intended to evaluate the DTSA from a variety of perspectives. It includes contributions from both experienced IP practitioners and respected legal academics. John Marsh, a trade secret lawyer at Hahn Loeser & Parks LLP and Chair of the American Intellectual Property Law Association's (AIPLA) Trade Secret Law Committee, argues in favor of the DTSA's enactment.²⁵ Representing a different viewpoint, Stephen Y. Chow, an IP attorney at Burns & Levinson LLP and member of the American Law Institute, questions whether the DTSA is necessary and ultimately concludes that it is "not ready for prime

Pfizer, Procter & Gamble, and 3M).

22. *Id.*

23. Letter from Theodore H. Davis, Jr., Section Chair, Am. Bar Ass'n, Section of Intellectual Prop. Law, to the Hon. Charles E. Grassley et al. (Oct. 5, 2015), *reprinted in* 161 CONG. REC. S7252–53 (Oct. 8, 2015).

24. See Professors' Letter in Opposition to the Defend Trade Secrets Act of 2015 (S. 1890, H.R. 3326) (Nov. 17, 2015), *available at* <http://cyberlaw.stanford.edu/blog/2015/11/new-professors-letter-opposing-defend-trade-secrets-act-2015>; 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%27%20Letter%20Opposing%20Trade%20Secret%20Legislation.pdf>; see also Eric Goldman, *Federal Trade Secret Bill Re-Introduced—And It's Still Troublesome*, TECH. & MARKETING L. BLOG (Aug. 4, 2015), <http://blog.ericgoldman.org/archives/2015/08/federal-trade-secret-bill-re-introduced-and-its-still-troublesome-guest-blog-post.htm> (last visited Nov. 17, 2015); David S. Levine & Sharon K. Sandeen, *Open Letter to the Sponsors of the Revised Defend Trade Secrets Act*, CTR. FOR INTERNET & SOC'Y (Aug. 3, 2015), <http://cyberlaw.stanford.edu/publications/open-letter-sponsors-revised-defend-trade-secrets-act> (last visited Nov. 17, 2015). Additional recent legal 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); Seaman, *supra* note 3.

25. John F. Marsh, *In Defense of the Defend Trade Secrets Act of 2015: Five Policy and Procedural Reasons Favoring Its Passage*, 72 WASH. & LEE L. REV. ONLINE (forthcoming Dec. 2015).

time.”²⁶ Eric Goldman, Professor of Law and Co-Director of the High Tech Law Institute at Santa Clara University School of Law and author of the widely-read *Technology & Marketing Law Blog*, critiques the ex parte seizure provision of the DTSA and argues that it should be removed from the bill.²⁷ David S. Levine, Associate Professor of Law at Elon University School of Law and Affiliate Scholar at the Center for Internet and Society at Stanford Law School, addresses cybersecurity, the “reasonable efforts” standard for trade secret protection, and the DTSA.²⁸ Sharon K. Sandeen, Professor of Law at Hamline University and co-author of *Cases and Materials on Trade Secret Law*, the leading textbook on the subject, contends that the marginal benefits of the DTSA are significantly outweighed by its likely costs, particularly by increases in both the anticipated volume and complexity of litigation in federal court that would occur in the DTSA’s wake.²⁹ All of these contributions enrich the nascent literature regarding this important legislation.

26. Stephen Y. Chow, *DTSA: A Federal Tort of Unfair Competition in Aerial Reconnaissance, Broken Deals, and Employment*, 72 WASH. & LEE L. REV. ONLINE (forthcoming Dec. 2015).

27. Eric Goldman, *Ex Parte Seizures and the Defend Trade Secrets Act*, 72 WASH. & LEE L. REV. ONLINE 284 (2015).

28. David S. Levine, *School Boy’s Tricks: Reasonable Cybersecurity and the Panic of Law Creation*, 72 WASH. & LEE L. REV. ONLINE 321 (2015).

29. Sharon K. Sandeen, *DTSA: The Litigator’s Full-Employment Act*, 72 WASH. & LEE L. REV. ONLINE 308 (2015).