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Subcommittee on Courts, Intellectual Property and the Internet

"Safeguarding Trade Secrets in the United States"

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I. Introduction and Executive Summary

Chairman Issa, Ranking Member Johnson, and distinguished members of the Subcommittee, thank you for inviting me to testify at today's hearing.

I am a partner at the law firm of O'Melveny & Myers LLP. My practice focuses on trade secret counseling and litigation, along with patent litigation. I represent clients in matters that span the full range of trade secret and employee mobility issues, from advising on protection programs to investigating alleged thefts to litigating trade secret cases in state and federal court. I am the co-author of a book on trade secret law that is now in its third edition.[1] I am also the lead author on the largest-ever statistical analysis of trade secret litigation in state and federal courts.[2] I serve in leadership roles in various trade secret organizations, including within the Sedona Conference and the American Intellectual Property Law Association. I appear today in my individual capacity and not on behalf of my firm, my clients, or anyone else.

I address in this statement three topics regarding safeguarding trade secrets. First, I summarize why trade secrets are increasingly important to American companies and increasingly in danger of misappropriation. Second, I describe several statistics from the first years of the Defend Trade Secrets Act ("DTSA"), which was signed into law in May 2016 after near-unanimous approval in Congress. Third, I describe an aspect of 28 U.S.C. § 1782 that affects the protection of trade secrets.

II. Trade Secrets Are Increasingly Important and Increasingly in Danger

Precise data on trade secrets and their theft is difficult to obtain. Trade secrets are, by definition, not publicly known, and theft victims are often unwilling to publicize the

[1] DARIN W. SNYDER & DAVID S. ALMELING, TRADE SECRET LAW AND CORPORATE STRATEGY (2018).
[2] David S. Almeling et al., *A Statistical Analysis of Trade Secret Litigation in Federal Courts*, 45 GONZ. L. REV. 291 (2010) [hereinafter *Federal Study*]; David S. Almeling et al., *A Statistical Analysis of Trade Secret Litigation in State Courts*, 46 GONZ. L. REV. 57 (2011) [hereinafter *State Study*].

misappropriation. But there are various private and public studies on the cost of theft. These studies vary, but they often put the figure in the tens or hundreds of billions per year and report that the cost is increasing.[3]

There are many reasons that trade secrets are growing in importance to the American economy. Here are the seven I see:[4]

1. The continued advancement of digital technology and storage—e.g., cloud computing, e-mail, thumb drives—makes it easier to store, distribute, and steal trade secrets.

2. American workers are rarely devoting their careers to a single employer and instead are moving from job to job—and, whether by design or accident, are often taking their former employers' trade secrets with them.

3. Trade secrets, like all intangible intellectual property, are increasingly valuable now that we live in an information-based economy instead of one based primarily on natural resources or capital goods.

4. The value of trade secrets benefited from the growth of a well-developed body of trade secret law on which stakeholders could rely. This was true at the state level in the form of the Uniform Trade Secrets Act, and the DTSA is enhancing this benefit at the federal level.

5. A "trade secret" is broadly defined as any information that is secret, derives economic value from that secrecy, and is the subject of reasonable measures to maintain its secrecy. This means that the category of material falling within this definition is continually expanding without subject matter limitation.

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[3] COMM'N ON THE THEFT OF AM. INTELLECTUAL PROP., THE IP COMMISSION REPORT 1 (2017), available at http://www.ipcommission.org/report/IP_Commission_Report_Update_2017.pdf; 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*, 55 WAKE FOREST L. REV. (forthcoming 2018) at 5 n.23 ("While hard numbers about the cost of IP theft, including trade secret misappropriation, are hard to determine and potentially exaggerated, they are commonly claimed to be in the hundreds of billions of dollars."); ASIS INTERNATIONAL, TRENDS IN PROPRIETARY INFORMATION LOSS 10 (2007); Press Release, McAfee, Inc. Research Shows Glob. Recession Increasing Risks to Intellectual Prop. (Jan. 29, 2009), available at https://www.businesswire.com/news/home/20090129005493/en/McAfee-Research-Shows-Global-Recession-Increasing-Risks; CREATE.ORG & PWC, ECONOMIC IMPACT OF TRADE SECRET THEFT: A FRAMEWORK FOR COMPANIES TO SAFEGUARD TRADE SECRETS AND MITIGATE POTENTIAL THREATS (Feb. 2014), available at https://create.org/wp-content/uploads/2014/07/CREATe.org-PwC-Trade-Secret-Theft-FINAL-Feb-2014_01.pdf.

[4] I describe these seven reasons in detail in the following article: David S. Almeling, *Seven Reasons Why Trade Secrets Are Increasingly Important*, 27 BERKELEY TECH. L.J. 1091 (2012). Others have identified similar reasons. *See, e.g.*, Jeffrey Mordaunt & Joshua Swedlow, *Why Trade Secret Litigation Is On The Rise*, LAW360.COM (Nov. 14, 2017), available at https://www.law360.com/articles/983195/why-trade-secret-litigation-is-on-the-rise.

6. There is an increasing threat of trade secret misappropriation from foreign individuals, companies, and governments.

7. Companies have the choice of whether to pursue patent or trade secret protection for certain kinds of information, and recent developments in U.S. patent law have made trade secrets a more attractive choice in certain circumstances.

Many of the trends that make trade secrets more important also make them more vulnerable. To address whether trade secrets are in fact more vulnerable than in the past, my colleagues and I conducted a survey, published in January 2018, of attorneys who work at companies.[5] These attorneys are a resource for trade secret information because most trade secrets threats and theft do not result in litigation, and these attorneys are the ones on the front lines who address trade secret issues. One result in our survey is that in-house attorneys tasked with handling trade secret matters perceive a greater threat to their companies' trade secrets. More than 75% of respondents said that the risks to their company's trade secrets have increased over the past 10 years, and 50% described those risks as having increased "significantly." None believed that the risks to their trade secrets have decreased, and only 13% believe that the risks have stayed the same. Other studies have likewise concluded that the threat of trade secret misappropriation is growing.[6]

The DTSA was enacted in part to address the increasing importance of trade secrets and the increased threats to those trade secrets. The House Report on the DTSA explained it this way: "As trade secret owners increasingly face threats from both at home and abroad, the bill

[5] David S. Almeling, et al., *A Survey of In-House Attorney Views on Trade Secrets*, LAW360.COM (Jan. 12, 2018), available at https://www.law360.com/articles/999664/a-survey-of-in-house-attorney-views-on-trade-secrets [hereinafter "In-House Counsel Study"].

[6] *See, e.g.*, STOUT ADVISORY, TRENDS IN TRADE SECRET LITIGATION REPORT 2017 5 (2017), available at https://www.stoutadvisory.com/insights/report/trends-in-trade-secret-litigation-report-2017; CREATE.ORG, *supra* note 3, at 11; BAKER MCKENZIE, PROTECT AND PRESERVE: THE RISING IMPORTANCE OF SAFEGUARDING TRADE SECRETS 2 (2017), available at https://www.bakermckenzie.com/-/media/files/insight/publications/2017/trade-secrets.

equips them with the tools they need to effectively protect their intellectual property and ensures continued growth and innovation in the American economy."[7]

III. Statistics from the First Years of the DTSA

Next month is the two-year anniversary of the DTSA. Around the time of its first anniversary, several practicing lawyers and law professors wrote articles that presented various statistics on the first full year of litigation under the DTSA.[8] To my knowledge, there are no statistical studies on the first two full years of the DTSA, though that may change in the coming months.

The available data from the DTSA's first year yield numerous findings, including the following. First, while trade secret owners are using the DTSA to protect and enforce their trade secrets, the DTSA did not result in a surge of new litigation. Studies report, using various methodologies, that the number of new cases filed in federal district court alleging trade secret misappropriation under the DTSA ranged from 129–530.[9] The mostly likely number is a little shy of 500.[10] When compared to the number of patent cases in the last few calendar years—e.g., 5,786 cases in 2015, 4,651 in 2016, and 4,527 in 2017[11]—this is a manageable addition of new cases on the federal docket. To be clear, though, some of these cases would have been filed in

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[7] H.R. Rep. No. 114-529, at 6 (2016).

[8] *See, e.g.*, Levine & Seaman, *supra* note 3; David W. Opderbeck, *DTSA Statistics*, THECYBERSECURITYLAWYER.COM (May 10, 2017), available at http://thecybersecuritylawyer.com/2017/05/10/dtsa-statistics/; Boris Zelkind et al., *The Defend Trade Secrets Act - A Year in Review* (May 10, 2017), available at https://www.law360.com/articles/921842/the-defend-trade-secrets-act-a-year-in-review; Caroline K. Simons et al., *Series: Defend Trade Secrets Act | The Year in Numbers*, FR.COM (May 31, 2017), available at https://www.fr.com/fish-litigation/the-defend-trade-secrets-act-the-year-in-numbers/.

[9] *See* Levine & Seaman, *supra* note 3, at 25 (finding 486 DTSA lawsuits in the first year); Simons, *supra* note 8 (finding 530); Zelkind, *supra* note 8 (finding 129); Opderbeck, *supra* note 8 (finding 280). These numbers vary because there is no single authoritative source or database of trade secret cases and because available sources, such as PACER, do not expressly identify trade secret cases as such. People investigating statistics on trade secrets therefore need to devise their own methodologies.

[10] *See* Levine & Seaman, *supra* note 3, at 14–24 (describing their rigorous and seemingly comprehensive methodology that found 486 DTSA lawsuits in the first year).

[11] Dr. Parithosh K. Tungaturthi, *2017 Patent Litigation: A Statistical Overview*, BioLoquitor.com (Jan. 17, 2018), available at https://www.bioloquitur.com/2017-patent-litigation-statistical-overview/.

federal district courts even without the DTSA through supplemental jurisdiction or diversity jurisdiction.

Second, DTSA cases are spread throughout the United States instead of concentrated in a small number of venues. During the first year of the DTSA, no venue had more than 10% of DTSA cases, and the most popular venues for trade secret cases were the Northern District of California, the Northern District of Illinois, the Central District of California, and the Southern District of New York.[12] The popularity of these venues makes sense, as they contain the population and commercial centers of the San Francisco Bay Area, Chicago, Los Angeles, and New York, respectively. These venues were also among the most popular for trade secrets cases before the DTSA.[13] It thus appears that the most popular federal districts for trade secrets cases before the DTSA are also the most popular ones after the DTSA.

Third, in two-thirds of the cases filed in the first year of the DTSA, the alleged misappropriator was a current or former employee of the trade secret owner.[14] This too is consistent with trade secret litigation before the DTSA in both state courts and federal courts.[15] In other words, and as described by the authors of the most detailed statistical study performed to date on the DTSA, "instances of hacking and other intrusions, while high-profile and often devastating to their victims, remains low compared to bread-and-butter departing employee claims."[16]

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[12] *See, e.g.*, Levine & Seaman, *supra* note 3, at 26–27; Simons, *supra* note 8; Zelkind, *supra* note 8; Opderbeck, supra note 8.
[13] *See Federal Study*, *supra* note 2, at 309.
[14] *See* Levine & Seaman, *supra* note 3, at 32.
[15] *See Federal Study*, *supra* note 2, at 302 (ranging between 52% from 1950–2007 to 59% in 2008); *State Study*, *supra* note 2, at 69 (77% from 1995–2009).
[16] Levine & Seaman, *supra* note 3, at 6.

Fourth, in more than 80% of DTSA cases, the trade secret owner asserted claims for trade secret misappropriation under both the DTSA and the applicable state trade secret law.[17] This duplication of causes of actions is possible because the DTSA does not preempt state law causes of action. As for whether the DTSA should or should not preempt, opinions appear to be mixed. For example, as part of a recent survey of in-house attorneys who work on trade secret issues, 38% of respondents were in favor of no preemption, 23% were in favor of preemption, and 39% were undecided.[18]

Fifth, one particular provision of the DTSA deserves special mention because it has generated some controversy: 18 U.S.C. § 1836(b)(2), which permits trade secret owners to request on an *ex parte* basis that certain property be seized from the defendant "to prevent the propagation or dissemination of the trade secret."[19] As a result of concerns raised during the legislative history of the DTSA, Congress modified the provision to narrow the circumstances in which it was available. Within the first year of litigation under the DTSA, there were 10 cases that involved motions for an *ex parte* seizure, and of those, 2 were granted.[20] Based on my preliminary research,[21] for the approximately two-year period from the beginning of the DTSA until April 9, 2018, there have been at least 21 cases that involved motions for an *ex parte*

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[17] *See id.* at 30-31 (84%); Simons, *supra* note 9, at 1 (82%).
[18] *See* In-House Counsel Study, *supra* note 5.
[19] *See generally* TIMOTHY LAU, TRADE SECRET SEIZURE BEST PRACTICES UNDER THE DEFEND TRADE SECRETS ACT OF 2016 (June 2017), available at https://www.fjc.gov/sites/default/files/2017/DTSA_Best_Practices_FJC_June_2017.pdf.
[20] *See* Levine & Seaman, *supra* note 3, at 35.
[21] To identify cases involving requests for *ex parte* seizure orders, I worked with a colleague to analyze three databases: Westlaw, Lexis Advance, and Lex Machina. We searched judicial opinions in Westlaw and Lexis Advance using the following keyword searches: ("ex parte" AND "1836 and "seizure"); and (("ex parte" /p "seizure) AND (1836 or dtsa or "defend trade secrets act")). We also searched federal dockets in Westlaw and Lex Machina using the following keyword searches: ("ex parte" AND "1836" and "seizure"); (seizure AND (1836 or DTSA)). Within these results, we identified cases that likely involved motions or orders related to requests for ex parte seizures under § 1836(b)(2). Of the cases we identified, we then accessed the full dockets from the U.S. Courts' PACER database to review the particular motion or order. Once we obtained our results, we then vetted our numbers against publicly available material (such as articles and blogs) to ensure that we did not omit any granted *ex parte* seizure orders. Thus, as of April 9, 2018, I believe the data described above is accurate.

seizure, and of those, 5 were granted.[22] Thus, it appears that litigants and courts are heeding the DTSA's text that this remedy is available "only in extraordinary circumstances." 18 U.S.C. § 1836(b).

There are certainly other available statistics regarding the DTSA. But from the statistics described above, I draw several conclusions. One is that the DTSA has successfully provided trade secret owners with a new means of protecting and enforcing their trade secrets, which trade secrets owners are using by filing actions for trade secret misappropriation in federal courts when previously they were limited in many instances to state court. Another is that courts are applying the DTSA in a way that does not appear to be fundamentally changing trade secret litigation but that is instead incrementally moving toward a more uniform, consistent application of trade secret law. In short, the DTSA is a welcome addition to the trade secret landscape.

IV. 28 U.S.C. § 1782 and the Protection of Trade Secrets

One statute that affects how trade secrets are safeguarded is 28 U.S.C. § 1782, which allows federal courts to compel U.S. residents to participate in discovery related to a foreign proceeding. That section does not, however, expressly provide for the protection of trade secret or other confidential information that is produced for use in a foreign proceeding. While courts

[22] *See Mission Capital Advisors, LLC v. Romaka*, No. 1:16-cv-05878 (S.D.N.Y. July 29, 2016) (Dkt. No. 7); *AVX Corp. v. Kim*, No. 6:17-cv-00624 (D.S.C. Mar. 8, 2017) (Dkt. No. 8); *Axis Steel Detailing, Inc. v. Prilex Detailing LLC*, No. 2:17-cv-00428 (D. Utah May 23, 2017) (Dkt. No. 11); *Blue Star Land Servs. v. Coleman*, No. 5:17-cv-00931 (W.D. Okla. Aug. 31, 2017) (Dkt. No. 10); *Solar Connect, LLC v. Endicott*, 2:17-cv-01235 (D. Utah Dec. 4, 2017) (Dkt. No. 15).

have issued orders that afford some degree of protection, additional guidance from Congress on this issue would be welcome.

II. Conclusion

I thank and commend the Subcommittee for its attention to the proper functioning of trade secret law, which is vital to U.S. citizens and companies.