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TRADE SECRET "TRIGGERS": WHAT FACTS WARRANT LITIGATION?

William Lynch Schaller, Russell Beck** & Randall E. Kahnke****

INTRODUCTION

A confluence of factors, including multiple high-profile prosecutions and civil actions for trade secret thefts, passage of the federal Defend Trade Secrets Act (DTSA), and uncertainty over patent protection, have brought trade secret issues to the forefront of American business concerns.[1] Whether old-fashion insider theft or ultra-modern computer hacking, trade secret theft knows no bounds "in an era of digitalization, global markets, and mobile workers."[2] Recent, illustrative examples can be found in the Cisco-Arista router trade secret litigation, in which

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* Retired Partner, Baker & McKenzie, Chicago, Illinois. The views herein do not necessarily reflect the views of Baker & McKenzie or its clients. Mr. Schaller is no longer a partner, employee, or agent of Baker & McKenzie in any way.

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1. Maressa A. Frederick & Clara N. Jiménez, *Are the Crown Jewels Really Safe?: Considerations for Building a Strong Trade Secret Portfolio in Today's Market*, A.B.A. LANDSLIDE, Vol. 9, No. 4, March/April 2017, at 14 ("In the past year, the passage of the Defend Trade Secrets Act in the United States and the Trade Secrets Directive in the European Union, coupled with the perceived uncertainty surrounding patent procurement and enforcement, have increased the attractiveness of trade secrets as tools to protect intellectual property.").

2. *Id*.

a key executive left Cisco to lead Arista in head-to-head competition,[3] and the Equifax cyberhacking disaster, in which 143 million Americans may face identity theft.[4] Others, like the high-profile Google/Waymo-Uber self-driving car lawsuit, involved elements of both: Anthony Levandowski, a former engineer with Google's driverless car unit Waymo, allegedly "colluded with Uber to steal 14,000 confidential documents from Waymo––even before he left Waymo to jump-start Uber's self-driving car efforts."[5] His actions resulted initially in expedited discovery and a preliminary injunction barring Levandowski from participating in Uber's driverless car technology[6] and ended later in Levandowski's termination,[7] a permanent injunction against Uber, and a $245 million settlement by Uber.[8] Federal Judge Wil-

3. *See* Rachel King, *Cisco's Costly Feud: CEO's Former Protégé Joins Startup, Builds Rival Networking Business*, WALL ST. J., Aug. 18, 2017, at A1 (reporting business and litigation aspects of the fight between Cisco CEO John Chambers and his former colleague, Arista CEO Jayshree Ullal).

4. Brad Stone, *Hurricane Equifax Is a Category 5 Breach*, CHI. TRIB., Sept. 12, 2017, § 1, at 15 (discussing the Equifax breach from a personal perspective, as one notified that his most sensitive information may have been breached).

5. Jack Nicas, *Uber Appeared Wary Before Deal: Alphabet Offers Evidence that Rival Anticipated Suit Over Purchase of Startup*, WALL ST. J., April 13, 2017, at B3.

6. *See* Greg Bensinger & Jack Nicas, *Uber Takes Hit in Car-Tech Fight: Judge Gives Alphabet Unit Broad Leeway to Exam Evidence from Ride-Hailing Firm*, WALL ST. J., May 16, 2017, at B1.

7. *See* Mike Isaac & Daisuke Wakabayashi, *Uber Fires Former Google Engineer at Heart of Self-Driving Dispute*, N.Y. TIMES (May 30, 2017), https://www.nytimes.com/2017/05/30/technology/uber-anthony-levandowski.html ("Uber has pressured Mr. Levandowski to cooperate for months, but after he missed an internal deadline to hand over information, the company fired him.").

8. Kif Leswing & Rob Price, *Uber and Waymo Have Reached a $245 Million Settlement in Their Massive Legal Fight Over Self-Driving-Car Technology*,

liam Alsup of the Northern District of California in San Francisco also referred the case to the Justice Department for criminal investigation.[9]

These cases reflect the speed and intensity of trade secret actions, and they underscore the need for prompt and thorough investigations at the outset. When investigating a trade secret misappropriation case under pressure, however, it's all too easy to skip the first and most basic question: What are the facts that constitute "triggers" warranting legal action? As Ken Vanko has noted, "Trade secret cases pose unique challenges for plaintiff's counsel, particularly since the elemental trigger facts lie squarely within the client's control and may deal with obtuse, technical concepts."[10] Ironically, in tougher cases, the trigger facts may actually rest solely within the defendant's control. The consequences of getting this "trigger" question wrong can be severe for all counsel,[11] given how quickly these cases can mushroom into major litigation.[12]

BUSINESS INSIDER (Feb. 9, 2018), https://www.businessinsider.com.au/uber-settles-with-waymo-in-self-driving-lawsuit-2018-2 (reporting settlement, including non-use agreement).

9. Greg Bensinger & Jack Nicas, *supra* note 6.

10. Kenneth J. Vanko, *Trade Secrets: Proving Bad Faith in Trade Secret Cases*, ILL. B. J., Vol. 105, No. 6, June 2017, at 40, 42.

11. *See* Charles S. Fax, *The Perils of Appearing Pro Hac Vice*, A.B.A. LITIG. NEWS, Vol. 42, No. 4, Summer 2017, at 20 (noting that local counsel may sign a complaint prepared by *pro hac vice* counsel, only to find some factual or legal assertions in the filing are not the result of reasonable inquiry or otherwise violate Rule 11's requirements: (1) no improper purpose; (2) warranted by existing law or non-frivolous argument to modify law; (3) factual contentions have or will likely have evidentiary support; and (4) denials of factual contentions are warranted).

12. *See, e.g.*, Wolters Kluwer Financial Services, Inc. v. Scivantage, 525 F. Supp. 2d 448 (S.D.N.Y. 2007) (100-page opinion excoriating trade secret litigation tactics of plaintiff's counsel, starting with elementary fact that the accused former employees never had access to the secret computer source code

Broadly speaking, all trade secret cases involve allegations that information was a trade secret and *wrongfully* acquired, used, or disclosed. While all cases involve some amount of wrongful conduct, it is the quality of the wrongful conduct that presents the "trigger" factual inquiry.

In some cases, trigger facts are the subject of direct evidence and hence relatively straightforward. For example, there are virtually no circumstances in which outsiders can legitimately hack into someone else's password-protected computer system, and occasionally employees are caught on camera or tell others of their bad acts. But most trade secret cases rely on more circumstantial evidence and thus require more thought.[13]

Below, we treat the three most common scenarios—jumping ship, inevitable disclosure, and failed deals—by reviewing cases decided before the DTSA. We then turn to how federal pleading standards may play out under the new DTSA with respect to trigger facts, including federal court jurisdictional facts and the potential unavailability of the inevitable disclosure doctrine under the DTSA.

JUMPING SHIP

Although cyber intrusions like the Equifax disaster make headlines, most trade secret cases start more modestly, with

in question); *In re* Kristan Peters, 748 F.3d 456 (2d Cir. 2014) (affirming seven-year suspension from federal court practice of law for lead plaintiff's counsel in the *Scivantage* case).

13. *See* Sokol Crystal Products, Inc. v. DSC Communications Corp., 15 F.3d 1427, 1429 (7th Cir. 1994) ("While there was no direct evidence that anyone at DSC used Sokol's confidential information in the making of its own VCXO, the jury apparently inferred from the fact that DSC had access to Sokol's confidential information and from the similarity between the two devices that DSC misappropriated Sokol's trade secret and that the AFD VCXO was derived from that trade secret.").

partners, executives, employees, or consultants ending one relationship to start another—invariably with a competitor. Indeed, many believe with some justification that job-hopping is the only way to secure a significant raise,[14] and others argue that worker mobility is central to economic growth.[15] While the data is still inconclusive,[16] an underlying question remains: Does the mere fact that a person switches sides, without more, justify a trade secret lawsuit?

The answer to this narrow but simple question should be "no," yet surprisingly few appellate cases directly and thoroughly address this question at the pleadings stage. As a result, innocent defendants are forced to endure full-blown trade secret litigation through summary judgement and then have no recourse for bad faith or simply deficient pleading.

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14. *See, e.g.*, Cassie Walker Burke & Sabrina Gasulla, *Is Job-Hopping the Only Way to Get Ahead in Chicago?*, CRAIN'S CHI. BUS., April 3, 2017, at 15 ("Out of 650-plus Chicago-area men and women we surveyed in January [2017], 62 percent—nearly 2 out of 3—said changing jobs was necessary for advancement in the local job market."); Vanessa Fuhrmans, *The Case for Saying Goodbye*, WALL ST. J., April 19, 2017, at B7 ("Young professionals are among today's biggest job-hoppers: A 2016 LinkedIn survey found millennials have worked at roughly four companies in their first decade after college, compared with 2.5 companies for the generation before them.").

15. *See, e.g.*, Omri Ben-Shahar, *How Chicago Can Lure Amazon: Ban Noncompete Agreements*, CHI. TRIB., Sept. 12, 2017, § 1, at 13 ("[T]he evidence strongly suggests that the [complete noncompete] ban proposed by [Illinois Governor Bruce Rauner] would support economic growth, technological startups and innovation."); Ronald J. Gilson, *The Legal Infrastructure of High Technology Districts: Silicon Valley, Route 128, and Covenants Not to Compete*, 74 N.Y.U. L. REV. 575 (1999) (arguing that California's statutory ban on noncompete agreements—resulting in increased employee mobility—played a critical role in the rise of Silicon Valley).

16. Norman D. Bishara & Evan Starr, *The Incomplete Noncompete Picture*, 20 LEWIS & CLARK L. REV. 497, 497–546 (2016).

A case in point at the district court level is *Glenayre Electronics, Ltd. v. Sandahl*.[17] In this bruising fight, Joel Sandahl and six other employees departed Glenayre to form a rival paging system firm, Complex Systems. They continued to provide consulting services to Glenayre for the next six months, but the parties eventually landed in arbitration over an alleged noncompetition agreement violation relating to the design of Complex Systems' new paging system called C-NET. During a pretrial conference in connection with the arbitration, Sandahl said an attorney had compared C-NET's paging system patent application with a patent application Glenayre had filed for its new Omega Gold paging product and had found Omega Gold was a "clone" of C-NET. This caused Glenayre to conclude that Complex Systems had somehow improperly obtained confidential information about Omega Gold.

Extensive discovery, a preliminary injunction,[18] and an interlocutory appeal ensued,[19] but the case culminated in summary judgement for the defense seventeen months after the initial complaint was filed. The district court carefully parsed the evidence and arguments before ruling that Glenayre's circumstantial evidence did not raise a reasonable inference of trade secret misappropriation. Among other things, the court rejected Glenayre's assertion that Omega Gold must have been misappropriated just because Complex Systems came up with C-NET quickly and "out of thin air," noting Glenayre cited no documents or other evidence in support of this notion. The court also

17. 830 F. Supp. 1149 (C.D. Ill. 1993).

18. Glenayre Electronics, Ltd. v. Sandahl, 811 F. Supp. 388 (C.D. Ill. 1993) (noting the court's prior order dated June 3, 1992, granting a preliminary injunction preventing defendants' use of information obtained from Glenayre, but allowing both parties to continue to pursue their respective patent applications on the pager technology at issue).

19. *In re* Sandahl, 980 F.2d 1118 (7th Cir. 1992).

ignored Sandahl's "cloning" remark at the arbitration, calling it "a misunderstanding, not misappropriation,"[20] in light of the patent attorney's testimony that he had never seen the Omega Gold patent application. The court then deconstructed the claim that Michael Tanner, another ex-Glenayre employee who joined Complex Systems, must have misappropriated Omega Gold because he accepted a higher paying position with Complex and subsequently waited five days before resigning from Glenayre. The evidence, however, showed that Omega Gold was not underway until after Tanner left.

When all was said and done, the triggers of mass departures, substantial similarity, and suspicious timing were simply not enough, especially since it appeared none of the defendants had access to Glenayre's secrets. The court had "no doubt that the gentlemen who left Glenayre's employment are highly knowledgeable and experienced regarding paging system technology,"[21] but this by itself did not establish a colorable trade secret misappropriation case against them. Yet, despite their lack of wrongful conduct, the defendants spent seventeen months in litigation that was arguably baseless from the outset.

The absence of trigger facts produced a similar pro-defense outcome at the pleadings stage in another district court case, *Accenture Global Services GmbH v. Guidewire Software, Inc*.[22] In this case, strictly speaking, employees did not jump ship; instead, the customer did. Specifically, rival firm employees worked for the same customer, CNA Insurance, on overlapping insurance claims handling automation projects under nondisclosure agreements. Accenture later alleged that competitor Guidewire

20. *Glenayre Electronics, Ltd.*, 830 F. Supp. at 1152.

21. *Id*. at 1153.

22. 581 F. Supp. 2d 654 (D. Del. 2008).

"somehow" and "somewhere" gained access to Accenture's insurance claims processing software secrets because Guidewire quickly produced software that had taken Accenture years to develop: "[W]e believe that their product development trajectory was just too fast to result in the kind of product that they have, which looks fairly similar to ours. From our view that's too much of a coincidence, so there has to be a trade secret violation here, in our opinion."[23]

The district court was unimpressed and dismissed these conclusory allegations on a Rule 12(b)(6) motion. Under the United States Supreme Court's governing standards in *Bell Atlantic Corp. v. Twombly*,[24] the district court noted, "more than labels and conclusions" are necessary; "a formulaic recitation of the elements of a cause of action will not do."[25] Instead, "a well-pleaded complaint must contain enough facts to state a claim to relief that is plausible on its face"—a standard that "does not impose a probability requirement at the pleading stage."[26] The district court's sensitive application of these principles is worth quoting:

> It is not common for a trade secret misappropriation plaintiff to know, prior to discovery, the details surrounding the purported theft. That being said, a court may be asked to strike a balance between the notice required by Rule 8 with the reality that a trade secret misappropriation plaintiff may have minimal facts available to it at the pleading stage.

23. *Id*. at 659.
24. 550 U.S. 554 (2007).
25. *Accenture*, 581 F. Supp. 2d at 660 (quoting *Twombly*, 550 U.S. at 545).
26. *Accenture*, 581 F. Supp. 2d at 660–61 (quoting *Twombly*, 550 U.S. at 545).

It is the court's opinion that the complaint at bar, however, presents nothing more than "conclusions" and a "formulaic recitation of elements of a cause of action." With respect to the theft of its trade secrets, Accenture states only the following: Accenture worked with CNA, during which time it learned about Guidewire; Accenture installed ACCS software on CNA's computers in late 2002; CNA informed Accenture in 2003 that its bid had lost; and Accenture later learned that Guidewire had the winning bid. (D.I. 1 at ¶¶ 20–25) Accenture assumes, based upon what it feels was "a surprisingly quick development trajectory," that Guidewire has "somehow" obtained and used Accenture's trade secrets. (*Id*. at ¶¶ 24, 25, 31) The balance of Accenture's complaint recites only the remainder of the misappropriation elements, namely, that Guidewire acted with knowledge, and that its acts constitute harm to Accenture. (*Id*. at ¶¶ 33–34)

To support its trade secrets claim, Accenture was required to plead certain facts, namely, that Guidewire obtained its trade secrets by improper means or, alternatively, an improper use or disclosure. 6 Del. C. § 2001(2)(a) & (b). Accenture states only that Guidewire "somehow gained access to Accenture trade secrets in creating its software and services." (*Id*. at ¶ 25) This paragraph implies that Guidewire possessed the trade secrets in question. There is no allegation, however, that Guidewire obtained the information by improper means, or the nature of such means. Accenture's

> use of the word "somehow" in describing Guidewire's acquisition of its trade secrets emphasizes this point. (*Id*.) Notably, there is no specific allegation that Guidewire gained access to ACCS through CNA.
>
> Secondly, there is no allegation that Guidewire either disclosed or used the secrets in developing Guidewire Insurance Suite, only that Guidewire "seemed to" develop its product "surprisingly quick[ly]" in Accenture's opinion, which is of no import. Accenture is not entitled to conduct a fishing expedition based upon such bare allegations; its DUTSA claim is dismissed. *See Knights Armament Co. v. Optical Systems Technology, Inc.*, 568 F. Supp. 2d 1369, 1377 (M.D. Fla. 2008) (dismissing UTSA counterclaim under *Twombly* where defendant stated that plaintiffs had access to the secrets through business dealings, but "[gave] no further details as to how [they] allegedly used the trade secrets."); *compare Savor, Inc. v. FMR Corp.*, 812 A.2d 894, 895, 897 (Del. Supr. 2002) (trade secret misappropriation pled where Savor alleged a purportedly unique combination of marketing strategies and processes for a rebate program, and that it provided the program to defendant under cover that the enclosed materials were "protected by various copyrights, patents pending, and trademark registrations").[27]

Access "somehow"? Access "somewhere"? A "similar" product? A "coincidence"? These allegations were no better

27. *Accenture*, 581 F. Supp. 2d at 662–64 (footnotes omitted).

than the allegations of *en masse* employee departures, product similarity, and suspicious timing in *Glenayre*. Yet, these might be the only trigger facts available to the plaintiff at the pleading stage. If so, filing an action would be premature and plaintiff's investigation should continue.

It is also noteworthy, however, that trade secrets cases are very fact intensive and many courts have found a sufficient basis for trade secrets claims on limited trigger facts. Indeed, direct evidence of misappropriation need not be alleged, nor even proven at trial. As the Eighth Circuit stated in affirming a trial verdict finding misappropriation where the plaintiff presented no direct evidence thereof, "direct evidence of industrial espionage is rarely available and not required."[28] Other courts have issued similar holdings to the effect that access plus subsequent development of similar products states a plausible misappropriation claim that can survive summary judgment as well as post-trial challenges. [29]

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28. Pioneer Hi-Bred Int'l v. Holden Found. Seeds, 35 F.3d 1226, 1239 (8th Cir. 1994) (quotation omitted).

29. *See* Stratienko v. Cordis Corp., 429 F.3d 592, 600–01 (6th Cir. 2005) (stating it is sufficient for trade secret plaintiffs to present evidence that "(1) the misappropriating party had access to the secret and (2) the secret and the defendant's design share similar features," and reasoning that "[p]ermitting an inference of use from evidence of access and similarity is sound because misappropriation and misuse can rarely be proved by convincing direct evidence") (quotation omitted); Sokol Crystal Prods. v. DSC Commc'ns Corp., 15 F.3d 1427, 1432 (7th Cir. 1994) (affirming jury verdict because "once the jury concluded that (1) DSC had access to Sokol's trade secrets, and (2) DSC's product was similar to Sokol's, it was entirely reasonable for it to infer that DSC used Sokol's trade secret"); Leggett & Platt, Inc. v. Hickory Springs Mfg. Co., 285 F.3d 1353, 1361 (Fed. Cir. 2002) (showings of "access and similarity" of products "may support a trade secret misappropriation claim"); Contour Design, Inc. v. Chance Mold Steel Co., 2010 DNH 11, at *27–28 (D.N.H. 2010) (showings of "access and similarity—may support a trade secret misappropriation claim because they suggest that the defendant derived its product

INEVITABLE DISCLOSURE

Faced with the conundrum the district court acknowledged in *Accenture*—the trade secret plaintiff does not "know, prior to discovery, the details surrounding the purported theft"—plaintiffs increasingly pursue another option to establish trigger facts: the doctrine of inevitable disclosure. In inevitable disclosure cases, the court examines the same circumstances deemed defective in *Glenayre* and *Accenture*, yet finds a viable claim based upon certain additional facts, usually head-to-head competition by an executive or employee who cannot avoid drawing on his past employer's secrets to do his new job.[30] In other words, these circumstances dispense with the need for direct proof of misappropriation, a "no proof" approach (critics would

from the plaintiff's trade secret, rather than from an independent source") (quotation omitted); Bro-Tech Corp. v. Thermax, Inc., 651 F. Supp. 2d 378, 412 n.240 (E.D. Pa. 2009) (trade secret plaintiffs "may establish use or disclosure through inference, by showing that the defendant had access to plaintiff's trade secret, and that there are 'substantial similarities' between defendant's product and plaintiff's secret information"); PRG-Schultz Int'l, Inc. v. Kirix Corp., 2003 WL 22232771, at *7 (N.D. Ill. Sept. 22, 2003) (where defendants had access to trade secret during employment with plaintiff and thereafter created a similar software program, "a reasonable jury could conclude that the individual defendants misappropriated a trade secret from plaintiffs"*);* USA Power, LLC v. PacifiCorp, 235 P.3d 749, 761 (Utah 2010) (holding that "a jury can infer misappropriation . . . if presented with circumstantial evidence that shows access to information similar to the trade secret at issue").

30. *See* C & F Packing Co., Inc. v. IBP, Inc., 1998 WL 1147139, at *8–9 (N.D. Ill. Mar. 16, 1998) (quoting deposition testimony of former C & F Packing employee McDaniel in denying defense summary judgement motion in "inherent disclosure" case: "Q: Did you draw on your experience at C & F with the Italian sausage toppings to help solve problems at IBP? A: I tried to keep things separate. Whether I did it unknowingly or not, I cannot say.").

say) that has gained traction in other legal fields such as copyright and employment discrimination.[31] Indeed, inevitable disclosure claims have become *de rigueur*, with 100 appearing in published opinions by 2004.[32] This theory has antecedents dating back over a century,[33] but it did not really gain wide-spread acceptance until the Seventh Circuit's seminal 1995 decision in *PepsiCo, Inc. v. Redmond*.[34] Not all courts subscribe to this "no

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31. *See* Robert Kirk Walker, *Ghosts in the Machine: Musical Creation and the Doctrine of Subconscious Copying*, A.B.A. LANDSLIDE, Vol. 9, No. 4, March/April 2017, at 48 (reviewing difficulty in separating "subconscious copying" from "independent creation" in copyright cases in light of the unlimited access to copyrighted material the Internet provides); Nancy Gertner, *Loser's Rules*, 122 YALE L.J. ONLINE 109, 110 (2012) ("In effect, today's plaintiff stands to lose unless he or she can prove that the defendant had explicitly discriminatory policies in place or that the relevant actors were overtly biased. It is hard to imagine a higher bar or one less consistent with the legal standards developed after the passage of the Civil Rights Act, let alone with the way discrimination manifests itself in the twenty-first century."); Annika L. Jones, Comment, *Implicit Bias as Social-Framework Evidence in Employment Discrimination*, 165 U. PA. L. REV. 1217 (2017) (arguing "implicit bias" and "unconscious discrimination" can be proven through social science research and can overcome *Daubert* challenges); Mark Newman, *When "Culture Fit" Is Really a Bias Cover: Assessment Not Always a Valid One for Job Candidates*, CHI. TRIB., May 22, 2017, § 2, at 3 ("Unconscious bias and the natural tendency to gravitate toward people similar to us can play out in hiring decisions.").

32. *See* William Lynch Schaller, *Trade Secret Inevitable Disclosure: Substantive, Procedural & Practical Implications of an Evolving Doctrine*, 86 J. PAT. & TRADEMARK OFF. SOC'Y 336 (2004) (collecting cases).

33. *See* Harrison v. Glucose Sugar Refining Co., 110 F. 304, 311 (7th Cir. 1902) ("Under the circumstances it would require something more than his mere denial to convince us that in the manufacture of glucose he would not employ the secrets of the business of appellee which had been confidentially communicated to him. He could not do otherwise. He was employed the rival for that purpose.").

34. 54 F.3d 1262 (7th Cir. 1995).

evidence" view, and some—notably courts in California, as exemplified by *Cypress Semiconductor Corp. v. Maxim Integrated Products, Inc.*[35]—reject the inevitable disclosure doctrine as a matter of policy.[36]

Comparing *PepsiCo* with *Cypress* illuminates the power and danger of the inevitable disclosure doctrine. In *PepsiCo*, the defendant William Redmond, who served as the General Manager of PepsiCo's California region (part of the Pepsi-Cola North America division, or "PCNA"), began interviewing with Quaker Oats to become the latter's Vice President of On-Premise Sales of Gatorade. In that position, Redmond would be responsible for defeating the very marketing plans he had prepared for PepsiCo for its competing products, including its All Sport drink. Redmond's secret interviews spanned five months and began with Quaker Oats' Gatorade division head, Donald Uzzi, himself a recent PepsiCo executive. Redmond eventually revealed his Quaker Oats opportunity to his superiors at PepsiCo, but he misstated his contemplated Quaker Oats position as "Chief Operating Officer" of the combined Gatorade and Snapple operations, even though his new position was more modest. He then waited two days, apparently in the hope of receiving a counter offer from PepsiCo, before telling his PepsiCo superiors that he had accepted the Quaker Oats position. PepsiCo immediately initiated litigation, and the district court—on the authority of the inevitable disclosure doctrine—granted a five-month

35. 236 Cal. App. 4th 243, 186 Cal. Rptr. 3d 486 (2015) (noting California courts' rejection of inevitable disclosure and awarding fees for "bad faith" trade secret litigation).

36. *See, e.g.*, Whyte v. Schlage Lock Co., 101 Cal. App. 4th 1443, 1458, 125 Cal. Rptr. 2d 277, 290–94 (2002) (rejecting *PepsiCo* as contrary to California public policy embodied in Section 16600 of the California Business and Professions Code, the California statute generally prohibiting noncompete agreements).

injunction barring Redmond from working for Quaker Oats and a permanent injunction prohibiting Redmond from using or disclosing PepsiCo's trade secrets or confidential information.

The Seventh Circuit offered a nuanced view of the situation in affirming the district's injunction order. Because the inevitable disclosure doctrine seems more controversial than the Seventh Circuit's narrow holding, we quote the Court of Appeals at length:

> The ITSA [Illinois Trade Secrets Act], *Teradyne*, and *AMP* lead to the same conclusion: 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. *See also* 1 Jager, *supra*, § 7.02[2][a] at 7–20 (noting claims where "the allegation is based on the fact that the disclosure of trade secrets in the new employment is inevitable, whether or not the former employee acts consciously or unconsciously"). The defendants are incorrect that Illinois law does not allow a court to enjoin the "inevitable" disclosure of trade secrets. Questions remain, however, as to what constitutes inevitable misappropriation and whether PepsiCo's submissions rise above those of the *Teradyne* and *AMP* plaintiffs and meet that standard. We hold that they do.
>
> PepsiCo presented substantial evidence at the preliminary injunction hearing that Redmond possessed extensive and intimate knowledge about PCNA's strategic goals for 1995 in sports drinks and new age drinks. The district court concluded

on the basis of that presentation that unless Redmond possessed an uncanny ability to compartmentalize information, he would necessarily be making decisions about Gatorade and Snapple by relying on his knowledge of PCNA trade secrets. It is not the "general skills and knowledge acquired during his tenure with" PepsiCo that PepsiCo seeks to keep from falling into Quaker's hands, but rather "the particularized plans or processes developed by [PCNA] and disclosed to him while the employer-employee relationship existed, which are unknown to others in the industry and which give the employer an advantage over his competitors." *AMP*, 823 F.2d at 1202. The *Teradyne* and *AMP* plaintiffs could do nothing more than assert that skilled employees were taking their skills elsewhere; PepsiCo has done much more.

Admittedly, PepsiCo has not brought a traditional trade secret case, in which a former employee has knowledge of a special manufacturing process or customer list and can give a competitor an unfair advantage by transferring the technology or customers to that competitor. *See, e.g., Glenayre Electronics, Ltd. v. Sandahl*, 830 F. Supp. 1149 (C.D. Ill. 1993) (preliminary injunction sought to prevent use of trade secrets regarding pager technology); *Stampede Tool Warehouse, Inc. v. May*, 1995 WL 121439 (Ill. App. 1st Dist. March 22, 1995) (preliminary injunction sought to prevent use of customer lists); *Colson*, 155 Ill. Dec. at 473, 569 N.E.2d at 1082 (same); *Televation Telecommunication Systems, Inc. v. Saindon*, 169 Ill. App. 3d 8, 119 Ill. Dec. 500, 522

N.E.2d 1359 (2d Dist.) (preliminary injunction sought to prevent use of trade secrets regarding analog circuity in a wake-up call device), *appeal denied*, 122 Ill.2d 595, 125 Ill. Dec. 238, 530 N.E.2d 266 (1988). PepsiCo has not contended that Quaker has stolen the All Sport formula or its list of distributors. Rather PepsiCo has asserted that Redmond cannot help but rely on PCNA trade secrets as he helps plot Gatorade and Snapple's new course, and that these secrets will enable Quaker to achieve a substantial advantage by knowing exactly how PCNA will price, distribute, and market its sports drinks and new age drinks and being able to respond strategically. *Cf. FMC Corp. v. Varco Int'l, Inc.*, 677 F.2d 500, 504 (5th Cir. 1982) ("Even assuming the best of good faith, Witt will have difficulty preventing his knowledge of FMC's 'Longsweep' manufacturing techniques from infiltrating his work."). This type of trade secret problem may arise less often, but it nevertheless falls within the realm of trade secret protection under the present circumstances.

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The district court also concluded from the evidence that Uzzi's actions in hiring Redmond and Redmond's actions in pursuing and accepting his new job demonstrated a lack of candor on their part and proof of their willingness to misuse PCNA trade secrets, findings Quaker and Redmond vigorously challenge. The court expressly found that:

> Redmond's lack of forthrightness on some occasions, and out and out lies on others, in the period between the time he accepted the position with defendant Quaker and when he informed plaintiff that he had accepted that position leads the court to conclude that defendant Redmond could not be trusted to act with the necessary sensitivity and good faith under the circumstances in which the only practical verification that he was not using plaintiff's secrets would be defendant Redmond's word to that effect.

The facts of the case do not ineluctably dictate the district court's conclusion. Redmond's ambiguous behavior toward his PepsiCo superiors might have been nothing more than an attempt to gain leverage in employment negotiations. The discrepancy between Redmond's and Uzzi's comprehension of what Redmond's job would entail may well have been a simple misunderstanding. The court also pointed out that Quaker, through Uzzi, seemed to express an unnatural interest in hiring PCNA employees: all three of the people interviewed for the position Redmond ultimately accepted worked at PCNA. Uzzi may well have focused on recruiting PCNA employees because he knew they were good and not because of their confidential knowledge. Nonetheless, the district court, after listening to the witnesses, determined otherwise. That conclusion was not an abuse of discretion.

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> Thus, when we couple the demonstrated inevitability that Redmond would rely on PCNA trade secrets in his new job at Quaker with the district court's reluctance to believe that Redmond would refrain from disclosing these secrets in his new position (or that Quaker would ensure Redmond did not disclose them), we conclude that the district court correctly decided that PepsiCo demonstrated a likelihood of success on its statutory claim of trade secret misappropriation.[37]

Head-to-head competition and slight dishonesty carried the day in *PepsiCo*, but *PepsiCo* itself has not fared so well in California, as *Cypress* reflects. Just as Quaker Oats pursued multiple PepsiCo employees before filling the position Redmond ultimately accepted, Maxim pursued multiple Cypress employees to fill two touchscreen technology positions, one of which Cypress "Employee 60XX" initially accepted. Employee 60XX later declined the Maxim position after a war of words broke out between Cypress president T.J. Rodgers and Maxim president Tunc Doluca over Maxim's targeting of Cypress employees. Even though Employee 60XX was deterred, Cypress, in order to prevent trade secret theft, still sued for an injunction prohibiting Maxim from recruiting Cypress employees. After months of wrangling over whether Cypress had any actual trade secrets, Cypress suddenly and voluntarily dismissed its suit without prejudice. Cypress' about-face didn't work; Maxim prevailed on its claim for "bad faith" in spite of Cypress' *volte-face*.

37. 54 F.3d at 1269–71 (footnotes omitted).

The California Court of Appeal affirmed the trial court's bad faith findings and fee award of approximately $181,000. The appellate court made its views clear: mere solicitation of a rival's employees is not actionable, and inevitable disclosure claims cannot be used to change this outcome in California. The Court of Appeal held:

> The second theory on which Cypress sought to claim misappropriation of a trade secret is that Maxim was seeking to hire Cypress employees "in order to acquire and use Cypress's confidential information in an effort to catch up . . . in the development of touchscreen products." This allegation is repeated several times in slightly variant forms, i.e., that "Maxim . . . has been using a headhunter to raid Cypress's touchscreen employees to obtain Cypress's touchscreen technology for Maxim"; that "[u]pon information and belief, Maxim is trying to raid Cypress's touchscreen employees in order to acquire Cypress's confidential information"; and that "in targeting the specific employees with knowledge of Cypress's touchscreen technology, Maxim is improperly attempting to acquire, use or disclose Cypress's substantive confidential information regarding its touchscreen technology. This is threatened misappropriation . . . ."
>
> In other words, according to this theory Maxim was seeking to hire Cypress employees so that it could appropriate whatever trade secrets they might know. We may assume that at least some aspects of "Cypress's touchscreen technology" were genuine trade secrets. It is absolutely clear,

however, that no such misappropriation had occurred when the complaint was filed. Maxim had extended an offer to one Cypress employee, who initially accepted but was ultimately prevailed upon to remain with Cypress. So far as anything in the record suggests, Maxim never extended an offer to any other "touchscreen employee." Therefore it never had the occasion or opportunity to engage in the posited brain-picking. As reflected in the last sentence quoted above, the claim was purely one of threatened misappropriation.

Nothing in the complaint, and nothing submitted by Cypress since filing the complaint, lends any color to the naked assertion that Maxim was pursuing Cypress employees with the object of extracting trade secrets from them. In the trial court Maxim suggested that Cypress's claims in this regard implicitly rested on the doctrine of inevitable disclosure, under which some jurisdictions will permit a plaintiff to substantiate a trade secret claim against a departing employee "'by demonstrating that [the] defendant's new employment will inevitably lead him to rely on the plaintiff's trade secrets.'" (*Whyte v. Schlage Lock Co.* (2002) 101 Cal. App. 4th 1443, 1458, 125 Cal. Rptr. 2d 277 (*Whyte*), quoting *PepsiCo, Inc. v. Redmond* (7th Cir. 1995) 54 F.3d 1262, 1269.) This doctrine, as Maxim pointed out, has been flatly rejected in this state as incompatible with the strong public policy in favor of employee mobility. (*Whyte, supra*, at p. 1462, citing Bus. & Prof. Code, § 16600, and cases applying it.) The inevitable disclosure doctrine would contravene this policy by "permit[ting] an employer to enjoin the former employee without proof of the employee's actual or threatened use of trade secrets based upon an inference (based in turn upon circumstantial evidence) that the employee inevitably will use his or her knowledge of those trade secrets in the new employment. The result is not merely an injunction against the use of trade secrets, but an injunction restricting employment." (*Whyte, supra*, at pp. 1461–1462.)

Cypress expressly disclaimed any reliance on the doctrine of inevitable disclosure, but in the absence of that doctrine we can detect no basis for its allegation of threatened misappropriation. Indeed, the result condemned in *Whyte, supra*, 101 Cal. App. 4th at page 1461—"to enjoin [hiring of its] . . . employee[s] without proof of [any] . . . actual or threatened use of trade secrets"—is precisely what Cypress prayed for here: "a preliminary and permanent injunction against Defendants . . . enjoining/restraining them from soliciting Cypress's touchscreen employees." Given the complete absence of any coherent factual allegations suggesting a threatened misappropriation, Cypress's second theory of relief was an inevitable disclosure claim, or it was no claim at all—and in either case, it did not state grounds for relief under California law.[38]

38. 236 Cal. App. 4th at 264–65.

The tension between *PepsiCo* and *Cypress* is self-evident. With the inevitable disclosure doctrine, thin trigger facts prevailed in *PepsiCo*; without the inevitable disclosure doctrine, thin trigger facts drew sanctions in *Cypress*. Put differently, an employee's departure for a similar job does not alone justify a trade secret action, but just a little more in conjunction may—if inevitable disclosure applies. Thus, for investigation purposes one must always ask just how "inevitable" is disclosure, determine whether the relevant jurisdiction follows this principle, and then ascertain whether there has been any wrongful conduct.[39]

FAILED DEALS

Failed deal cases abound,[40] and almost all present "trigger" inquiries similar to those in *Glenayre*, *Accenture*, *PepsiCo*, and *Cypress*. The most egregious involve the suitor's poaching of the target's key employees immediately before or after the deal has collapsed, as one might guess.[41] A review of a recent Illinois trade secret "trigger" case, *Destiny Health, Inc. v. Connecticut General Life Insurance Co.*,[42] demonstrates the dynamics of failed deal disputes from a trade secret perspective.

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39. A whitepaper summarizing the inevitable disclosure doctrine and a chart summarizing the position each state has taken on the doctrine can be found at: https://www.faegrebd.com/webfiles/Inevitable%20Disclosure.pdf.

40. *See, e.g.*, Texas Advanced Optoelectronic Solutions, Inc. v. Renesas Electronics America, Inc., 888 F.3d 1322 (Fed. Cir. 2018) (upholding jury finding that putative buyer misappropriated ambient light sensor combination secret following failed deal to buy plaintiff's company); Smith v. Dravo Corp., 203 F.2d 369 (7th Cir. 1953) (putative buyer's theft of shipping container design trade secrets following failed deal to buy plaintiff's company).

41. *See, e.g.*, Pactiv Corp. v. Menasha Corp., 261 F. Supp. 2d 1009 (N.D. Ill. 2003) (refusing to enforce contract clause prohibiting employee raiding in contract between parties to an unsuccessful business sale).

42. 2015 IL App (1st) 142530, 39 N.E.3d 275 (2015).

In *Destiny*, a case decided on summary judgment, insurer Cigna decided to combine its existing wellness program with a points-based program as part of a package to offer to its employer-clients. Cigna discussed this idea with Destiny, a third-party vendor that had pioneered Vitality, a wellness-based healthcare program designed to make persons healthier by awarding them points for healthy activities. Because Cigna sought to review sensitive Destiny data, the parties amended their existing confidentiality agreement to enable the free exchange of information and to protect Destiny. Destiny then provided Cigna, during due diligence in September 2007, with confidential information concerning its Vitality program, including profitability and how it determined to award points. The following month, October 2007, Cigna advised Destiny that Cigna could not move forward with Destiny due to "system challenges," a euphemism (Cigna later explained) for multiple problems with Destiny's program and its profitability, among other things. Six months later Cigna began reviewing other points program vendors, and then in January 2009, Cigna announced a deal with IncentOne to provide a wellness program.

Unhappy with both the outcome and the sequence of events, Destiny sued Cigna for trade secret misappropriation in April 2009. The trial court granted summary judgement in favor of Cigna in July 2014—nearly seven years after Cigna had terminated the Destiny deal. The Illinois Appellate Court affirmed, noting that Cigna's access to Destiny's confidential information, without more, did not show trade secret misappropriation. The appellate court then stressed the significant differences between the Destiny and IncentOne programs, along with the independent development testimony of Cigna and IncentOne, as defeating an inference of misappropriation. Finally, and perhaps most relevant here, the court rejected inevitable disclosure as a ground for denying summary judgement:

¶ 39 Cigna responds by arguing that *PepsiCo* and *Strata* [an Illinois Appellate Court opinion following *PepsiCo*] are distinguishable because they involve employees leaving one company to work for a competitor. Cigna cites *Omnitech International, Inc. v. Clorox Co.*, 11 F.3d 1316 (5th Cir. 1994) (*Omnitech*), and argues that the inevitable disclosure doctrine should not apply in trade secret cases arising out of failed commercial transactions.

¶ 40 In *Omnitech*, the plaintiff and Clorox signed a nondisclosure agreement and a letter of intent in connection with the possible sale of Omnitech's "Dr. X" line of roach spray. Omnitech agreed to share certain proprietary information with Clorox while keeping Clorox's interest in the insecticide market confidential. Clorox was given the right to conduct laboratory and marketing tests of Dr. X and was granted the right of first refusal to purchase Omnitech's assets. Clorox later acquired another line of insecticides from a different manufacturer and decided not to go forward with the Dr. X acquisition. Omnitech filed suit alleging trade secret misappropriation. Omnitech sought to rely not on direct evidence, but rather on an inference of misappropriation from the fact that Clorox had access to its proprietary information. On appeal, the United States Court of Appeals for the Fifth Circuit held that such evidence was insufficient as a matter of law to support an inference that Clorox improperly disclosed or used any of Omnitech's confidential information. The court explained:

> Certainly 'misappropriation' of a trade secret means more than simply using knowledge gained through a variety of experiences, including analyses of possible target companies, to evaluate a potential purchase. To hold otherwise would lead to one of two unacceptable results: (i) every time a company entered into preliminary negotiations for a possible purchase of another company's assets in which the acquiring company was given limited access to the target's trade secrets, the acquiring party would effectively be precluded from evaluating other potential targets; or (ii) the acquiring company would, as a practical matter, be forced to make a purchase decision without the benefit of examination of the target company's most important assets—its trade secrets. *Omnitech*, 11 F.3d at 1325.

¶ 41 We find that the facts of this case are more akin to the facts in *Omnitech* than to the facts in *PepsiCo* or *Strata*. Unlike *PepsiCo* and *Strata*, this case does not involve an employee who possessed trade secrets leaving his employer to work for a competitor. Rather, this case involves two companies that had entered into negotiations and shared confidential information. The fact that the information provided by Destiny might have made Cigna more informed in evaluating whether to partner with Destiny or another vendor in the development of an incentive-points program does

> not support an inference that Cigna misappropriated Destiny's trade secrets absent some showing that Cigna would not have been able to develop its incentive-points program without the use of Destiny's trade secrets.[43]

Destiny, of course, bears more than a passing resemblance to *Accenture*, and *Destiny* arguably should have been dismissed at the pleadings stage, as in *Accenture*, for failure to allege concrete trigger facts showing misappropriation. But that did not happen, and the parties thus ended up battling over the complete absence of misappropriation proof until the appellate court affirmed summary judgement—almost eight years after the parties had gone their separate ways. In *Destiny*, as in all of these cases except *PepsiCo*, the absence of a controlling appellate opinion defining what does and does not constitute proper pleading of trade secret trigger facts resulted in years of needless litigation.

DEFEND TRADE SECRETS ACT

Do these pre-DTSA cases still matter in the wake of the DTSA? The answer is yes, no, and maybe.

The DTSA amended the Economic Espionage Act in 2016 to provide a trade secret civil cause of action for private plaintiffs.[44] The DTSA is modelled after the Uniform Trade Secrets Act

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43. 2015 IL App (1st) 142530, at ¶¶ 39–41, 39 N.E.3d at 284–85 (2015).

44. 18 U.S.C. § 1836(b)(1) (2016) ("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.").

(UTSA), some form of which virtually all states have adopted.[45] The DTSA departs from the UTSA in certain respects, however, such as its explicit statutory authorization of property seizures to secure trade secret misappropriation evidence[46] and its apparent narrowing (if not exclusion) of the inevitable disclosure doctrine.[47] But its most important feature is that it allows private plaintiffs to prosecute their federal law trade secret actions in federal court.[48]

Federal Jurisdiction Under the DTSA

The first thing to consider under the DTSA is federal subject matter jurisdiction, found in the statutory requirement that the secret be "related to a product or service used in, or intended for use in, interstate or foreign commerce."[49] The constitutional limits of federal jurisdiction, such as they are, arise under the "aggregation principle" tracing back to *Wickard v. Filburn*.[50] In *Wickard*, the United States Supreme Court discarded prior distinctions between "manufacture" and "production" and focused instead on whether an activity has "substantial economic

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45. A useful chart comparing the DTSA with the UTSA can be found at https://faircompetitionlaw.files.wordpress.com/2017/02/ts-50-state-chart-20170204-utsa-comparison-beck-reed-riden-20161.pdf.

46. 18 U.S.C. § 1836(b)(2) (setting forth procedures for *ex parte* court orders allowing civil "seizure of property necessary to prevent the propagation or dissemination of the trade secret," and authorizing damages for wrongful seizure).

47. 18 U.S.C. § 1836(b)(3)(A)(i)(I-II).

48. 18 U.S.C. § 1836(c) ("The district courts of the United States shall have original jurisdiction of civil actions brought under this section.").

49. *Id*.

50. 317 U.S. 120 (1942). *See generally* James B. Barnes, *The Font of Federal Power:* Wickard v. Filburn *and the Aggregation Principle*, J. SUP. CT. HIST., Vol. 42, No. 1, 2017, at 49.

effects" on interstate commerce, either individually or in the aggregate. A famous and familiar example of the principle in action is *Heart of Atlanta Motel, Inc. v. United States*,[51] in which the Court reviewed the Civil Rights Act of 1964 and held that individual acts of discrimination, taken together, have a substantial economic effect on commerce. Although rare, the Court has from time to time struck down federal statutes as exceeding the Commerce Clause power, as in *United States v. Lopez*.[52] Given the inherently economic and interstate character of trade secrets, there seems little chance of a successful Commerce Clause challenge to the DTSA.

The question instead is whether the facts of a case satisfy the interstate commerce requirement set forth in the DTSA. Although a pre-DTSA case, an instructive decision on this question is the Second Circuit's well-known trade secret opinion in *United States v. Aleynikov*.[53] The facts of that high-profile controversy are by now familiar to almost anyone following the trade secret field: (1) Aleynikov worked as a computer programmer on high frequency trading for Goldman Sachs in New York; (2) Aleynikov decided to take a job with Teza Technologies, a rival high frequency trading firm in Chicago; (3) Aleynikov downloaded more than 500,000 lines of Goldman Sachs computer code and uploaded them to a server in Germany on his last day before leaving; and (4) Aleynikov subsequently was arrested and indicted for stealing trade secrets—Goldman Sach's com-

51. 379 U.S. 241 (1964).

52. 514 U.S. 549 (1995) (reviewing Gun-Free School Zones Act and finding activity of possessing a firearm was not economic for interstate commerce purposes). *See also* United States v. Morrison, 529 U.S. 598 (2000) (reviewing Violence Against Women Act and finding that gender-motivated crimes were not economic for interstate commerce purposes).

53. 676 F.3d 71 (2d Cir. 2012).

puter code—in violation of the criminal provisions of the Economic Espionage Act (EEA). Aleynikov was convicted and sentenced to 97 months in prison. He then appealed to the Second Circuit.

In a rare reversal, the Second Circuit held that the EEA indictment was insufficient as a matter of law on the facts of the case. As it was then written, Section 1832, the section of the EEA under which Aleynikov was indicted, required that the trade secret be "related to or included in a product that is produced for or placed in interstate or foreign commerce."[54] The Second Circuit held that Aleynikov's acts did not fit the statute under which he was indicted:

> The district court interpreted the phrase "produced for" interstate or foreign commerce more broadly. It held that the HFT system was "produced for" interstate commerce because "the sole purpose for which Goldman purchased, developed, and modified the computer programs that comprise the Trading System was to engage in interstate and foreign commerce" and because "Goldman uses the Trading System to rapidly execute high volumes of trades in various financial markets" and "[t]he Trading System generates many millions of dollars in annual profits."

54. 18 U.S.C. § 1832(a) ("Whoever, with intent to convert a trade secret, *that is related to or included in a product that is produced for or placed in interstate or foreign commerce*, to the economic benefit of anyone other than the owner thereof, and intending or knowing that the offense will, injure any owner of that trade secret, knowingly . . . without authorization . . . downloads, uploads, . . . transmits, . . . or conveys such information" is guilty of a federal offense, and may be imprisoned for up to 10 years.) (emphasis added).

Aleynikov, 737 F. Supp. 2d at 179. Under that interpretation, a product is "produced for" interstate or foreign commerce if its purpose is to facilitate or engage in such commerce.

The district court erred by construing the phrase––"produced for . . . interstate or foreign commerce"—"in a vacuum." *See Davis v. Mich. Dep't of Treasury*, 489 U.S. 803, 809, 109 S. Ct. 1500, 103 L. Ed. 2d 891 (1989). "It is a fundamental canon of statutory construction that the words of a statute must be read in their context and with a view to their place in the overall statutory scheme." *Id*. That way, a statutory phrase "gathers meaning from the words around it." *Jones v. United States*, 527 U.S. 373, 389, 119 S. Ct. 2090, 144 L. Ed. 2d 370 (1999) (internal quotation marks omitted). The district court's broad interpretation of the phrase "produced for" commerce becomes untenable in light of the paired phrase "placed in" commerce. Since every product actually sold or licensed is by definition produced for the purpose of engaging in commerce, every product that is "placed in" commerce would necessarily also be "produced for" commerce—and the phrase "placed in" commerce would be surplusage. This interpretation is inconsistent with "one of the most basic interpretive canons, that a statute should be construed so that effect is given to all its provisions, so that no part will be inoperative or superfluous, void or insignificant." *Corley v. United States*, 556 U.S. 303, 314, 129 S. Ct. 1558, 173 L. Ed. 2d 443 (2009) (internal quotation marks and alteration omitted); *see also Duncan v. Walker*, 533 U.S. 167, 174, 121 S. Ct.

2120, 150 L. Ed. 2d 251 (2001) ("It is our duty to give effect, if possible, to every clause and word of a statute." (internal quotation marks omitted)). "Judges should hesitate to treat statutory terms in any setting as surplusage, and resistance should be heightened when the words describe an element of a criminal offense." *Jones v. United States*, 529 U.S. 848, 857, 120 S. Ct. 1904, 146 L. Ed. 2d 902 (2000) (internal quotation marks and alterations omitted; emphasis added).

Even construed in isolation, the phrase "produced for . . . interstate or foreign commerce" cannot command the breadth that the district court and the Government ascribe to it. *See generally Fed. Commc'ns Comm'n v. AT & T Inc.*, ___ U.S. ___, 131 S. Ct. 1177, 1184, 179 L. Ed. 2d 132 (2011) ("[C]onstruing statutory language is not merely an exercise in ascertaining 'the outer limits of [a word's] definitional possibilities' . . . ." (quoting *Dolan v. U.S. Postal Serv.*, 546 U.S. 481, 486, 126 S. Ct. 1252, 163 L. Ed. 2d 1079 (2006))). At oral argument, the Government was unable to identify a single product that affects interstate commerce but that would nonetheless be excluded by virtue of the statute's limiting language. And even if one could identify one such example, or two, it would not be a category that would demand the attention of Congress, or be expressed in categorical terms.

If § 1832(a) was intended to have such a sweep, we would expect to see wording traditionally understood to invoke the full extent of Congress's regulatory power under the Commerce Clause. Notably, the EEA was enacted the year after the Supreme Court issued its landmark decision in *United States v. Lopez*, which held that Congress's Commerce Clause authority is limited to those activities that "substantially affect interstate commerce." 514 U.S. 549, 558–59, 115 S. Ct. 1624, 131 L. Ed. 2d 626 (1995). The Supreme Court observes a distinction between "legislation invoking Congress' full power over activity substantially 'affecting . . . commerce'" and legislation which uses more limiting language, such as activities "'in commerce,'" and thereby does not purport to exercise the full scope of congressional authority. *Jones*, 529 U.S. at 856, 120 S. Ct. 1904 (quoting *Russell v. United States*, 471 U.S. 858, 859–60 & n.4, 105 S. Ct. 2455, 85 L. Ed. 2d 829 (1985)). The temporal proximity between the enactment of the EEA and the decision in *Lopez* makes significant the omission from the EEA of the language blessed in that case as invoking the outer limit of Congress's regulatory authority.

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Goldman's HFT system was neither "produced for" nor "placed in" interstate or foreign commerce. Goldman had no intention of selling its HFT system or licensing it to anyone. *Aleynikov*, 737 F. Supp. 2d at 175. It went to great lengths to maintain the secrecy of its system. The enormous profits the system yielded for Goldman depended on no one else having it. Because the HFT system was not designed to enter or pass in commerce, or

> to make something that does, Aleynikov's theft of source code relating to that system was not an offense under the EEA.[55]

In response to that case, the Theft of Trade Secrets Act of 2012 altered the language to expand the scope of the information protected by the EEA. The current language drops the "produced for" and "placed in" conditions, replacing them with the broader phrase noted above, "related to a product or service used in, or intended for use in, interstate or foreign commerce." Precisely how federal courts will construe and apply this new language are open questions, but the answer seems to be "narrowly" if *Aleynikov* is any indication.[56]

Federal Court Pleading of Misappropriation "Triggers" Under the DTSA

Twombly and its progeny set forth the governing pleading standards for federal court civil actions, and these apply to trade secret actions, as *Accenture* reflects. At first blush there would appear to be nothing special about DTSA actions removing them from the reach of *Twombly*. First impressions can be deceiving, however.

Putting aside the peculiar need to allege facts satisfying the DTSA's interstate commerce clause, as in *Aleynikov*, and putting aside inevitable disclosure for the moment, at least one class of cases demands heightened pleading specificity: *ex parte* seizure

55. 676 F.3d at 80–82 (footnotes omitted).

56. *But see* People v. Aleynikov, 2018 NY Slip Op. 03174, ___ N.Y.3d ___, ___ N.E.3d ___, ___ N.Y.S.3d ___ (N.Y. Ct. App. May 3, 2018) (upholding Aleynikov's New York state court conviction; statute that criminalizes the making of a tangible reproduction or representation of secret scientific material by electronically copying or recording applies to the acts of a defendant who uploads proprietary source code to a computer server).

proceedings. The DTSA is explicit on this issue in Section 1836(b)(2): it requires an affidavit or verified complaint[57] and then places the burden on plaintiff at the seizure hearing "to prove the facts supporting the findings of fact and conclusions of law necessary to support the [seizure] order."[58] Further, it prohibits an order "unless the court finds that it *clearly* appears from specific facts" that the plaintiff has satisfied this burden.[59] One would think a federal court would be fairly insistent on factual detail, especially regarding vital trigger facts, before issuing such draconian relief.

More subtle is whether the DTSA might prompt federal courts to adopt more stringent "trigger" pleading standards for run-of-the-mill cases not involving seizures. The Racketeer Influenced and Corrupt Organizations Act (RICO) jurisprudence suggests one direction federal courts might take. Faced with a potential flood of garden variety state law fraud cases masquerading as federal court RICO actions, federal courts disregarded RICO's plain language and invented one barrier after another to pleading RICO civil claims. The United States Supreme Court frowned on such judicial limitations in *Sedima, SPRL v. Imrex Co., Inc.*,[60] but the lower court message has remained: RICO will be resisted. Today, that resistance often takes place in the name of the Supreme Court's decision in *H.J. Inc. v. Northwestern Bell Telephone Co.*,[61] in which the Court established the "continuity-

57. 18 U.S.C. § 1836(b)(2)(A)(i).

58. 18 U.S.C. § 1836(b)(2)(F)(ii).

59. 18 U.S.C. § 1836(b)(2)(A)(ii) (emphasis added).

60. 473 U.S. 479 (1985) (holding that RICO does not require a prior criminal conviction of either a predicate act or a RICO violation, nor does RICO require a special "racketeering injury").

61. 492 U.S. 229 (1989).

plus-relationship" test governing pleading and proof of a racketeering "pattern." Rare indeed is a civil case that meets this standard.[62]

If federal courts take this tack in trade secret cases, perhaps it will appear in the form of strict application of *Twombly*, rather than as an explicit, specialized legal pleading standard unique to trade secret cases. It is not hard to imagine a federal appeals court holding that alleged trigger facts fail to set forth a "plausible" claim under the Supreme Court's post-*Twombly* pleading opinion in *Ashcroft v. Iqbal*.[63] There the Court noted that "whether a complaint states a plausible claim for relief will, as the Court of Appeals observed, be a context-specific task that requires the reviewing court to draw on its judicial experience and common sense."[64] As the Court stressed in the very next sentence in *Iqbal*, "where the well-pleaded facts do not permit the court to infer more than the mere possibility of misconduct, the complaint has alleged—but it has not 'show[n]'—that the pleader is entitled to relief."[65] The conclusory trigger facts alleged in *Glenayre*, *Accenture*, *Cypress*, and *Destiny* did not appear to rise above a "mere possibility of misconduct," and even *PepsiCo* barely did so. In truth, properly understood, in all but *PepsiCo*, the allegations were in equipoise and thus well short of the "plausibility" mark.[66]

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62. *See, e.g.*, Raybestos Products Co. v. Younger, 54 F.3d 1234 (7th Cir. 1995) (upholding RICO verdict of almost $4 million based upon extortionate settlement demand letter).

63. 556 U.S. 662 (2009).

64. 556 U.S. at 679.

65. *Id*. (quoting FED. R. CIV. P. 8(a)(2)).

66. *See, e.g.*, United States v. Pulgar, 789 F.3d 807, 812 (7th Cir. 2015) ("But drug-distribution conspiracies hold a unique position in our legal sufficiency jurisprudence. In these special cases, we will also overturn a conviction when

What is really at issue here is a problem akin to the "parallel behavior" mess in antitrust law that gave rise to *Twombly* itself. In parallel conduct cases, one company takes some action, say, raising prices, and then competitors quickly follow suit. This might indicate an illegal price fixing agreement, but it might also indicate perfectly legal, "follow the leader" market behavior, sometimes called "conscious parallelism." Thus, parallel conduct, by itself, should not be enough to subject the defendant to the extraordinary time and expense of antitrust proceedings only to end where the case began—with no evidence backing an allegation of wrongdoing. Yet, despite *Twombly*, courts are reluctant to dismiss suspicious parallel conduct cases at the pleading stage. For example, in *In re Text Messaging Antitrust Litigation*,[67] an antitrust class action, the Court of Appeals, speaking through Judge Posner, noted that "[p]leading standards in federal litigation are in ferment after *Twombly* and *Iqbal*,"[68] but found the allegations under review survived dismissal because they amounted to a kind of "parallel plus."[69] Even so, the case eventually ended in summary judgment in favor of the defendants, which the Seventh Circuit affirmed in Judge Posner's later opinion in *In re: Text Messaging Antitrust Litigation II*.[70]

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the plausibility of a mere buyer-seller arrangement is the same as the plausibility of a drug-distribution conspiracy. *See* United States v. Johnson, 592 F.3d 749, 755 (7th Cir. 2010) ("In this situation, the evidence is in equipoise . . . so the jury necessarily would have to entertain a reasonable doubt on the conspiracy charge.")).

67. 630 F.3d 622, 626–27 (7th Cir. 2010).

68. *Id*. at 627.

69. *Id*. at 628 (noting allegations (i) that 90% of the text messaging market was controlled by four firms, (ii) that those firms had steeply falling costs yet raised their prices, and (iii) that the four firms suddenly changed their heterogeneous and complex pricing structures to a uniform pricing structure "and then simultaneously jacked up their prices by a third").

70. 782 F.3d 867 (7th Cir. 2015).

Inevitable Disclosure Under the DTSA

Section 1836(b)(3)(A)(i) has two provisions bearing upon inevitable disclosure.[71] In subsection (I), the statute states that "in a civil action brought under this subsection," a district court can grant an injunction to prevent actual or threatened disclosure so long as 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."[72] Subsection (II), in turn, provides that "in a civil action brought under this subsection," an injunction cannot "otherwise conflict with an applicable State law prohibiting restraints on the practice of a lawful profession, trade, or business."[73] What do these provisions mean?

Subsection (I) seems to be an explicit limitation on inevitable disclosure claims—or more precisely, on inevitable disclosure claims "in a civil action brought under this subsection." When applicable, this subsection prevents a total ban on employment and demands evidence of trigger facts beyond mere retained knowledge to justify even a narrower injunction. By its terms, it does not apply to failed deal scenarios like *Destiny* or to any other settings missing employee thieves. Subsection (II) would appear to have even narrower applicability, as few states other than California have broad bans on restraints of a "lawful pro-

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71. *See generally* Kenneth J. Vanko, *Revisiting the Seventh Circuit's Decision in PepsiCo: Inevitable Disclosure Injunctions in the Wake of the Federal Defend Trade Secrets Act of 2016*, SEVENTH CIR. RIDER (April 2017), at 50–53.

72. 18 U.S.C. § 1836(b)(3)(A)(i)(I).

73. 18 U.S.C. § 1836(b)(3)(A)(i)(II).

fession, trade, or business." Still, some have prohibitions on restraints for certain professions, like doctors and lawyers.[74] And others, like Illinois, bar noncompetition agreements for television personalities and low-paid workers.[75]

One wrinkle on subsections (I) and (II) is whether they will have any effect on pendent *state law* claims for trade secret theft. Both subsections are qualified by the language preceding them in subsection (b)(3)(A)(i), namely "in a civil action brought under this subsection." The answer will no doubt turn on the meaning of "brought under." This phrase might mean only DTSA claims themselves are restricted when it comes to injunctions. Or it might mean any action involving a DTSA claim, which would necessarily include pendent state law trade secret actions. For example, in determining the scope of the Federal Circuit Court of Appeals' jurisdiction, the Supreme Court in *Christianson v. Colt Industries Operating Corp.*[76] construed the "arising under any Act of Congress relating to patents" language of 28 U.S.C. § 1338(a). The Court held that "a claim supported by alternative theories in the complaint may not form the basis for § 1338(a) jurisdiction unless patent law is essential to each of those theories."[77] Obviously, under this standard the DTSA is not "essential" to a state law trade secret theory, unless

74. *See, e.g.*, Dowd & Dowd Ltd, Gleason, 181 Ill.2d 358, 693 N.E.2d 358 (1998) (holding that lawyer noncompetition agreements are void, except those governing retired partners).

75. *See* Broadcast Industry Free Market Act, 820 ILCS 17/10(a) ("No broadcasting industry employer may require in an employment contract that an employee or prospective employee refrain from obtaining employment in a specific geographic area for a specific period of time after termination of employment with that broadcasting industry employer."); Illinois Freedom to Work Act, 820 ILCS 90/1 *et seq.* (2017) ("A covenant not to compete entered into between an employer and a low-wage employee is illegal and void.").

76. 486 U.S. 800 (1988).

77. 486 U.S. at 810.

a court takes the broad view that "essential" turns on whether there would be no federal court subject matter jurisdiction over the state law claim without the DTSA. At least in diversity cases, federal court jurisdiction would exist independent of the DTSA, meaning the DTSA would be irrelevant rather than essential to such state law trade secret claims.

A narrow reading of "brought under" is also supported by the anti-preemption language found in 18 U.S.C. § 1838.[78] Section 1838 states that the DTSA does not displace any state law remedies. This explicit language can be reconciled with the DTSA's injunction limitations in Section 1836 if one assumes the specific (Section 1838) controls over the general (Section 1836). In addition, all statutory provisions are to be read together in such a way as to avoid rendering one superfluous.[79] From this vantage point, the simplest answer would be that the DTSA injunction limitations only apply to DTSA injunctions; state law injunctions are in no way restricted or displaced in light of Section 1838.

CONCLUSION

As should be apparent, the scope of a trade secret investigation necessarily depends on an understanding of relevant federal and state law. Factual triggers under some state laws may be insufficient under others, as the *PepsiCo/Cypress* comparison above shows. And these state law triggers do not automatically

78. 18 U.S.C. § 1838 ("Except as provided in section 1833(b), this 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, or to affect the otherwise lawful disclosure of information by any Government employee under section 552 of title 5 (commonly known as the Freedom of Information Act.").

79. Hibbs v. Winn, 542 U.S. 88, 101 (2004).

reflect the DTSA standards. Moreover, if one is proceeding under the property seizure section of the DTSA, heightened factual "trigger" pleadings are required. Unfortunately, few state or federal appellate decisions comprehensively limn these triggers for pleading purposes. The best practice, then, is to err on the side of caution and to search for as many true trigger facts as possible on misappropriation.