The Value in Secrecy

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Abstract

Trade secret law is seen as the most inclusive of intellectual property regimes. So long as information can be kept secret, the wisdom goes, it can be protected under trade secret law even if patent and copyright law are unavailable. But keeping a secret does not magically transform it into a *trade* secret. The information must also derive economic value from being kept secret from others. This elusive statutory requirement—called "independent economic value"—might at first glance seem redundant, especially in the context of litigation. After all, if information had no value, why would the plaintiff have bothered to keep it secret, and why would the parties be arguing over the right to use or disclose it? Surely, well-kept secrets that end up in court must be valuable.

That assumption is pervasive. But it is wrong. Secrecy does not demonstrate value. Even a company's best-kept secrets might be commercially worthless if vetted against what is known in the rest of the industry. Nor does the decision to pursue litigation indicate value. Trade secret litigants have plentiful exogenous reasons for pursuing lawsuits that have little to do with information's inherent value. Most importantly, "value" is the not the statutory standard; the standard is *economic value that comes specifically from secrecy*.

Some federal courts have begun to call out weak assertions of independent economic value, and in the process are redefining the role of this neglected statutory requirement. By analyzing this case law and drawing on insights from the larger intellectual property law field, this article generates a typology of "value failures" that can arise in any given trade secret dispute—amount failures, causation failures, type failures, and timing failures. Courts in trade secret cases should be screening for value failures far more consistently than they currently do. Otherwise, courts risk giving trade secrecy status to mere confidential information. This leads to wasted court resources and has detrimental consequences for competition, innovation, speech, and employee mobility.

The Value in Secrecy[1]

Camilla A. Hrdy [2]

Introduction

The conventional wisdom is that the primary requirement for owning a trade secret is secrecy. To some degree, this is true. Whether the information is a formula for a soft drink or a list of customers in need of frequent roof repairs, the primary step would-be trade secret owners must take is to keep information secret. Ensure it doesn't become widely known in the industry and use "reasonable" secrecy precautions, such as locks, digital security, and nondisclosure agreements.[3] However, secrecy is not the be all end all. To be a legally enforceable *trade* secret, the information also must possess a certain degree of economic value due to the fact that it is being kept secret from others.

This legal requirement is hardly a secret. It is contained in the plain language of the state and federal trade secret statutes, which provide that the claimed information must derive "independent economic value, actual or potential," from not being known to others who could themselves obtain economic value from the information.[4] The requirement was even more

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[3] *See* Camilla A. Hrdy & Sharon K. Sandeen, *The Trade Secrecy Standard for Patent Prior Art*, 70 AM. U. L. REV. 1269, 1287-1291 (2021).

[4] *See* Defend Trade Secrets Act, Pub. L. No. 114-153, 130 Stat. 376 (codified in 18 U.S.C. §§ 1836, 1837, 1838, 1839) (2016) [hereafter DTSA]; *see also* UNIF. TRADE SECRETS ACT § 1 (UNIF. LAW COMM'N 1985) [hereafter UTSA]. *See also, e.g.*, Deepa Varadarajan, *The Trade*

prominent in the common law, where, among other things, a trade secret had to give the holder "an opportunity to obtain an advantage over competitors who do not know or use it."[5] The law of trade secrecy has never protected mere secrets; it has always limited protection to secrets that confer some degree of economic advantage over others.

At a conceptual level, independent economic value performs an essential line-drawing function in trade secret law. It distinguishes mere secrets, which abound in human society, from trade secrets, which are treated as a form of intellectual property.[6] And yet, historically, courts in trade secret litigation have not closely scrutinized plaintiffs' assertions of independent economic value.[7] Many courts recite the statutory language but do not assess value in any depth, focusing instead on the other statutory requirements—in particular, whether the plaintiff took reasonable measures to keep the information secret.[8] Independent economic value, if it appears at all, is an afterthought, something courts assume can easily be shown from circumstantial evidence, such as the time, money, and effort invested in developing the information.[9] There is also a surprising

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Secret-Contract Interface, 103 IOWA L. REV. 1543, 1551 (2018); Joseph P. Fishman & Deepa Varadarajan, *Similar Secrets*, 167 U. PA. L. REV. 1051, 1063 (2019).

[5] RESTATEMENT (FIRST) OF TORTS § 757 cmt. b. (1939) (emphasis added). *See also* notes *infra* and accompanying text.

[6] Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470 (1974) (assessing trade secrets as innovation incentives and as potential alternatives to patents). *See also* Mark A. Lemley, *The Surprising Virtues of Treating Trade Secrets as IP Right*s, 61 STAN. L. REV. 311, 311 (2008). *But see* Robert G. Bone, *A New Look at Trade Secret Law: Doctrine in Search of Justification*, 86 CAL. L. REV. 241, 241 (1998).

[7] *See* ROGER M. MILGRIM & ERIC E. BENSEN, 1 MILGRIM ON TRADE SECRETS § 1.07A (LexisNexis 2020); ELIZABETH A. ROWE & SHARON K. SANDEEN, CASES AND MATERIALS ON TRADE SECRET LAW 146 (3d ed. 2021); Eric E. Johnson, *Trade Secret Subject Matter*, 33 HAMLINE L. REV. 545, 557 (2010); Michael Risch, *Trade Secrets and Development Incentives*, in THE LAW AND THEORY OF TRADE SECRECY: A HANDBOOK OF CONTEMPORARY RESEARCH 166-167 (Rochelle C. Dreyfuss & Katherine J. Strandburg eds., 2011); Camilla A. Hrdy & Mark A. Lemley, *Abandoning Trade Secrets*, STAN. L. REV. 1, 31-41 (2021).

[8] *See* notes *infra* and accompanying text.

[9] *See* notes *infra* and accompanying text.

paucity of law review articles on the subject, with only a few delving specifically into this particular doctrinal component of the law.[10]

It is not difficult to see why this is the case. Courts and commentators assume, not irrationally, that any information that ends up in court as the plausible subject of trade secret litigation has at least "potential" economic value sufficient to satisfy the statute. Why else would the plaintiff have bothered to take secrecy precautions?[11] Why else would the plaintiff be going to court to defend the secret?[12] Any why else would the parties be arguing over the right to use or disclose it? Surely the information has potential value to someone. As one trade secret expert astutely summarizes the common reasoning, "after all, if the information did not have value to the party now seeking the court's aid in protecting it, that party would not be in court and if it did not have value to the party accused of misappropriating it the alleged misappropriation would not have occurred."[13]

This assumption is pervasive, but wrong. Independent economic value cannot be presumed from the mere fact that the plaintiff kept information secret or from the mere fact that

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[10] *But see* Johnson, *supra*, at 556-557, 567-573 (positing economic value as a particularly important component of trade secret subject matter); Eric R. Claeys, *The Use Requirement at Common Law and Under the Uniform Trade Secrets Act*, 33 HAMLINE L. REV. 583 (2010) (discussing economic value as a replacement for the common law's use requirement); Hrdy & Lemley, *supra*, at 31-41 (arguing that economic value plays a crucial role in setting the end date for a trade secret). *See also* 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 HAMLINE L. REV. 493, 524-26 (2010) (discussing the drafting history of economic value); Charles Tait Graves & Sonia Katyal, *From Trade Secrecy To Seclusion*, 109 GEO. L. J. 1337, 1407 (2021) (suggesting that "revisiting" economic value provides one way to address over-reliance on trade secrecy in non-traditional contexts).

[11] *See* Deepa Varadarajan, *Trade Secret Precautions, Possession, and Notice*, 68 HASTINGS L.J. 357, 375 (2017) (explaining the view that "plaintiff's secrecy precautions are circumstantial evidence of … the information's independent economic value.").

[12] *See* Edmund W. Kitch, *The Law and Economics of Rights in Valuable Information*, 9 J. LEGAL STUD. 683, 697-98 (1980) ("[T]he plaintiff apparently thinks the secret has value, for he is willing to invest in the litigation.").

[13] Victoria Cundiff, *A Trade Secrets Crash Course 2019: What to Learn from Disputes over Driverless Cars, Data Analytics, and More* (July 5, 2019), in TRADE SECRETS 2019: WHAT EVERY LAWYER SHOULD KNOW 73 (Practicing Law Institute, 2019, ed. Victoria Cundiff) (noting critically that "[t]he UTSA and DTSA's requirement that information claimed to be a trade secret must have independent economic value (actual or potential) is often overlooked.").

the plaintiff is suing to stop another from using or disclosing the information. Trade secret plaintiffs have plentiful exogenous reasons for pursuing litigation which have little to do with information's inherent value. Possible motivations include strategically harassing potential competitors, threatening litigation to deter a star employee from leaving, or acting on a desire to prevent the leakage of embarrassing facts.[14] Although there are some external limitations on trade secrecy's ability to shield information the public needs to know, such as a new federal whistleblower provision[15] and a sliver of First Amendment protection that can be triggered when trade secret laws prohibit disclosure of information of high public interest,[16] independent economic value is the only *internal* limitation on protection for information that does not have the right amount or the right kind of value. It tells us that some of this information is just not a trade secret at all. Moreover, independent economic value applies in every case, not just in cases that interest the public at large. "Value failures," as this article calls them, can arise in disputes over all sorts of confidential information. The universe of secrets affected is vast, and the policy considerations are diverse.

In recent years, some federal courts have grown skeptical of the type and quality of information asserted as "trade secrets" and have begun to reference independent economic value as a limiting principle.[17] These decisions have challenged the status of information previously assumed to be standard trade secret subject matter, ranging from a political campaign's donor lists; to salary and office revenue data; to documents outlining internal company procedures; to

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[14] Graves & Katyal, *supra,* at 1341 (suggesting that companies utilize the strategy of "labeling sensitive or embarrassing information as a 'trade secret' or 'confidential' [in order to] stall or silence calls for disclosure.").

[15] The new federal whistleblower provision creates immunity from liability under state or federal law for those who disclose "a trade secret … solely for the purpose of reporting or investigating a suspected violation of law[.]" *See* 18 U.S.C. § 1833 (2016); *see also* Peter S. Menell, *Tailoring a Public Policy Exception to Trade Secret Protection*, 105 CAL. L. REV. 1, 1-7 (2017) (advocating for a safe harbor to protect those who disclose potential trade secrets in order to report illegal activity).

[16] *See* Pamela Samuelson, *Principles for Resolving Conflicts between Trade Secrets and the First Amendment,* 58 HASTINGS L.J. 777 (2006); Samuelson, *First Amendment Defenses in Trade Secrecy Cases*, *in* THE LAW AND THEORY OF TRADE SECRECY: A HANDBOOK OF CONTEMPORARY RESEARCH 269 (Rochelle C. Dreyfuss & Katherine J. Strandburg eds., 2011).

[17] *See* notes *infra* and accompanying text.

software code.[18] The upshot of these opinions is that secrecy is not enough; plaintiffs also need to make a plausible case for why their information derives economic value from secrecy. As one court put it, "[j]ust because a business benefits from keeping certain information confidential, does not necessarily mean that the information has independent economic value derived from its confidentiality. Otherwise, all confidential business information would constitute a trade secret and the additional statutory requirement that the information have independent economic value would be rendered meaningless."[19]

By analyzing this case law, and by drawing on insights from the broader intellectual property field, the article generates a typology of value failures—scenarios in which information asserted in trade secret litigation fails to derive independent economic value and where courts should not hesitate to identify the issue as soon as possible, dismissing the claim where appropriate.[20] Value failures operate along multiple dimensions.

The first is the "amount failure." This occurs when the information simply fails to meet a minimum quantitative threshold of actual or even "potential" value. Trade secret law, similar to patent and copyright law, adopts a hands-off approach that leaves the ultimate assessment of information's value to private markets. However, a low standard is not the same as no standard. If information's value is too minimal to be legally cognizable, then there is no trade secret. [21]

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[18] Democratic Nat'l Comm. v. Russian Fed'n, 392 F. Supp. 3d 410, 417 (U.S. D. Ct. S.D.N.Y. 2018) (political campaign's donor lists and fundraising strategies lacked independent economic value); Danaher Corp. v. Gardner Denver, Inc., 2020 U.S. Dist. LEXIS 89674, *45 (U.S. D. Ct. E.D. Wis. 2020) (template for leading internal meetings lacked independent economic value); Providence Title Co. v. Truly Title Co. at al No. 4:21-CV-147-SDJ, 2021 WL 2701238, at *16 (E.D. Tex. July 1, 2021) (employee salary and office revenue data lacked independent economic value). *See also* Yield Dynamics, Inc. v. TEA Sys. Corp., 154 Cal. App. 4th 547, 566-567 (2007) (software code whose functionality stems mostly from open-source public aspects lacks independent economic value).

[19] *Providence Title Co*., 2021 WL 2701238, at *16. *See also*, *e.g*., Elsevier Inc. v. Doctor Evidence, LLC, 2018 U.S. Dist. LEXIS 10730, *18, 2018 WL 557906 (S.D.N.Y. January 23, 2018) ("[C]onfidential information is not the same as a trade secret.").

[20] As discussed, most trade secret opinions are issued very early in the case, often on a motion to dismiss or motion for preliminary injunction. Sometimes dismissal with leave to amend to clarify independent economic value is appropriate. *See* notes *infra* and accompanying text.

[21] *See* notes *infra* and accompanying text.

The second, far more subtle value failure is the "causation failure." This occurs when information's asserted value is not actually caused by the fact that it is being kept secret. A lot of information is valuable in a certain sense. Perhaps the holder invested significant time and money in development; perhaps employees rely on the information in day-to-day operations. But "value" is not the same as value that comes "independent[ly]" from secrecy—which is what the statute expressly requires.[22] If information's only plausible value comes from what is already well-known in the industry, then this is not a trade secret. For example, if the putative trade secret is the design of a product that is alleged to be valuable because it is superior to others on the market, the *secret aspects* of the design, not the generally known aspects, must be responsible for that superiority. If properly applied, this causation component raises the bar on what can be protected and simultaneously reinforces the secrecy requirement itself. Secrecy ensures the law does not protect what is already known and free to use.[23] The value-from-secrecy mandate ensures the law does not protect holistic "value" that comes only from what is widely known. If there is no value in secrecy to protect, then there is no right under trade secret law to prevent disclosure or use by others.[24]

The third value failure is the "type failure." Here, the information has the wrong *type* of value. Unlike patent and copyright law, which do not require inventions or works of authorship to have commercial merit,[25] trade secret law specifically requires "economic" value. While the term sweeps broadly, recognizing countless ways to capture the value of information, the asserted value must at least be connected to the business or to some form of wealth-seeking

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[22] The article's interpretation of the statutory term "independent" is discussed in notes *infra* and accompanying text.

[23] *See* Lemley, *The Surprising Virtues of Treating Trade Secrets as IP Right*s, *supra*, at 343 (arguing that requirement of "[s]ecrecy is critical to ensuring that trade secret law does not interfere with robust competition or with the dissemination of new ideas.").

[24] *See* Ruckelshaus v. Monsanto Co., 467 U.S. 986, 1012 (1984) (applying common law) (stating that it is the "competitive advantage over others" that the holder of the secret "enjoys by virtue of its exclusive access" that the law protects against disclosure or use by others which "would destroy that competitive edge.").

[25] *See, e.g.*, Michael Risch, *Reinventing Usefulness*, 2010 B.Y.U. L. REV. 1195, 1204 (2010).

activity.[26] The putative economic value cannot stem purely from the fact that the secret-holder would prefer the information to be kept confidential or from the fact that disclosure would harm their reputation. Examples of type failures range from purely recreational secrets like a recipe used only in the home to the fact that a company makes products that are dangerous to public safety.[27]

The final value failure is the "timing failure." This occurs when the putative trade secret is asserted during the incorrect timeframe. Other intellectual property rights come with fixed statutory terms[28] or require "use in commerce" to tether their term lengths to ongoing commercial activity.[29] Trade secret law today has neither of these. Instead, it relies on independent economic value to set the timeframe for protection. When properly applied, independent economic value ensures that trade secrets are transitory rights, protectable only during a certain window of time. Information cannot be protected too early, before it possesses even "potential" economic value, or too late, after the information has become so outdated that it is no longer conceivably valuable to anyone.[30] Either of these situations results in a timing failure.

The most important message of all of this is that secrets can end up in court even if they do not have independent economic value. Courts must assess this legal requirement in every case in a meaningful way, screening for all four kinds of value failures. Otherwise, courts will inevitably protect secrets that are not meant to be protected under trade secret law, leading to a variety of negative and unintended social consequences, including wasted court resources; needless restrictions on access to information; and unjustified barriers to employee mobility, competition, and innovation.

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[26] This does not mean literally "for-profit." Entities deemed non-profit for tax purposes can still own trade secrets. The same is true for trademarks. *See* Leah Chan Grinvald, *Charitable Trademarks* 50 AKRON L. REV. 817 (2017). *See also* notes *infra* and accompanying text.

[27] *See* notes *infra* and accompanying text.

[28] 35 U.S. Code § 154(a)(2) (2011) (setting patent term at 20 years); 17 U.S.C. § 302 (a) (setting copyright term at life of author plus 70 years for solo authored works).

[29] 15 U.S.C. § 1127 (1988) (delineating "use in commerce" requirement and establishing rule for "abandonment" due to discontinuance of use).

[30] *See* Hrdy & Lemley, *supra*, at 1.

Trade secret law is at an important crossroads. For the first time, civil trade secret plaintiffs can now bring both federal claims under the Defend Trade Secrets Act ("DTSA") and state law claims under their jurisdiction's version of the Uniform Trade Secrets Act ("UTSA").[31] At the same time, developments in patent law have cast doubt on the viability of patents for protecting certain types of inventions and enhanced mechanisms for weeding out invalid patents.[32] Consequently, companies are likely to turn more often to trade secret law.[33] Given the new importance of trade secret law on the federal stage and within the intellectual property law field, this is a crucial time to get the law right. More courts should take this opportunity to reevaluate assumptions about what can and cannot be a trade secret under the law.

Defendants are not the only ones who would benefit from courts paying more attention to independent economic value. Companies that possess truly valuable trade secrets that give them an economic advantage in the marketplace should also support such a turn. Since the movement towards federalization that culminated in the DTSA, there have been critiques of trade secrets from all sides. Trade secrets should be state law, not federal law.[34] Trade secrets are bad for employees.[35] Trade secrets stand in the way of disclosure of information of high public interest.[36]

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[31] Note that New York has not adopted the UTSA; it still uses the common law. *See* notes *infra* and accompanying text.

[32] Lisa Larrimore Ouellette, *Patentable Subject Matter and Nonpatent Innovation Incentives*, 5 UC IRVINE L. REV. 1115, 1117 (2015). *See also* Megan M. La Belle, *Public Enforcement of Patent Law*, 96 B.U. L. REV. 1865, 1869 (2016).

[33] *See, e.g.,* 2020 TRENDS IN TRADE SECRET LITIGATION REPORT 16 (Stout, 2020).

[34] *See* Eric Goldman, Sharon Sandeen, Chris Seaman, et al, *Professors' Letter in Opposition to the Defend Trade Secrets Act of 2015* (S. 1890, H.R. 3326).

[35] *See* ORLY LOBEL, TALENT WANTS TO BE FREE: WHY WE SHOULD LEARN TO LOVE LEAKS, RAIDS, AND FREE RIDING 7-8 (2013); Orly Lobel, *The DTSA and the New Secrecy Ecology*, 1 BUS. ENTREPRENEURSHIP & TAX L. REV. 369 (2017).

[36] David S. Levine, *The Impact of Trade Secrecy on Public Transparency*, in THE LAW & THEORY OF TRADE SECRECY 406, 431–32 (Rochelle C. Dreyfuss & Katherine J. Strandburg, eds., 2011) (critiquing trade secret exemption that prevents government from releasing information of public interest); Rebecca Wexler, *Life, Liberty, and Trade Secrets: Intellectual Property in the Criminal Justice System*, 70 STAN. L. REV. 1343, 1351 (2018) (discussing implications of trade secret privilege in criminal justice system); Robin Feldman & Charles Tait Graves, *Naked Price and Pharmaceutical Trade Secret Overreach*, 22 YALE J. L. & TECH. 61, 63-64 (2020) (discussing trade secrets covering drug pricing information); Deepa Varadarajan, *Business Secrecy Expansion and FOIA*, 68 U.C.L.A. L. Rev. 462, 462 (2021)

Trade secrets are contributing to a "black box" society in which commerce and discourse are controlled by algorithms whose functions are opaque.[37] If trade secret plaintiffs brought higher quality claims, at least some of these critiques might subside. Taking independent economic value more seriously is a first step towards taking trade secrets more seriously.

The article proceeds as follows. Part I lays the groundwork by introducing the major concepts and statutory terms underlying independent economic value. Part II exposes and critiques the prevailing assumptions that seem to justify courts' behavior in ignoring or downplaying the requirement. Part III reveals that at least some courts, particularly in the DTSA's first five years, have found independent economic value is *not* satisfied, casting doubt on the notion that the requirement is redundant and revealing a possible future in which value plays a greater role in litigation than it currently does. Part IV draws on these case law findings, and insights from across the intellectual property field, to develop a typology of value failures which should help courts screen cases for value issues and more effectively assess them when they arise.

The article concludes by urging courts to assess the statutory requirement of independent economic value more consistently, like they do with secrecy and reasonable secrecy precautions. Courts and commentators are wrong to ignore or trivialize this requirement.

I. Statutory Interpretation of Independent Economic Value

The statutory requirement of independent economic value is a vestige of the common law concept of competitive advantage. This part therefore begins with the common law and then moves to a detailed statutory interpretation of independent economic value as codified in federal and state law today.

(discussing recent expansion of Freedom of Information Act exemption for trade secrets or "confidential information."); Christopher J. Morten & Amy Kapczynski, *The Big Data Regulator, Rebooted: Why and How the FDA Can and Should Disclose Confidential Data on Prescription Drugs*, 109 CALIF. L. REV. 493, 493 (2021) (critiquing trade secrecy's interference with information related to safety and efficacy of drugs and vaccines); Amy Kapczynski, *The Public History of Trade Secrets* (forthcoming 2022) (using history to critique current approach to trade secrets as triggering a government "taking" of property).

[37] FRANK PASQUALE, THE BLACK BOX SOCIETY: THE SECRET ALGORITHMS THAT CONTROL MONEY AND INFORMATION 2, 14-15 (2015); Sonia K. Katyal, *The Paradox of Source Code Secrecy*, 104 CORNELL L. REV. 1183, 1186-1187 (2019).

A. The Common Law Concept of Competitive Advantage

Trade secret law was originally designed to remedy the consequences of breaches of trust by employees; to safeguard firms' investments in valuable secrets; and to prevent unfair or immoral acts of competition in the marketplace.[38] Until the drafting of a uniform act in 1979, which states gradually adopted in the 1980s, civil trade secret law was exclusively common law[39] and generally lumped within a larger body of law called unfair competition.[40]

The concept of "competitive advantage" was central to trade secrecy under the common law. Several sources indicate that a trade secret had to confer a competitive advantage or "economic advantage" over others who did not know it, including the Restatement (First) of Torts ("First Restatement"),[41] and the Restatement (Third) of Unfair Competition ("Third Restatement").[42] The United States Supreme Court itself, in the course of assessing the common

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[38] *See* AMÉDÉE TURNER, THE LAW OF TRADE SECRETS §§ 1, 2, at 3-4 (1962); *see also* ROWE & SANDEEN, *supra*, at 21-28; Sharon K. Sandeen & Christopher B. Seaman, *Toward A Federal Jurisprudence of Trade Secret Law*, 32 BERKELEY TECH. L.J. 829, 834-843 (2017); Lynda Oswald, *The Role of 'Commercial Morality' in Trade Secret Doctrine*, 96 NOTRE DAME L. REV. 125 (2020).

[39] *See, e.g.*, Michael Risch, *An Empirical Look at Trade Secret Law's Shift from Common Law to Statutory Law*, in INTELLECTUAL PROPERTY AND THE COMMON LAW 151-176 (Ed. 2003, Balganesh).

[40] *See, e.g.*, HARRY D. NIMS, THE LAW OF UNFAIR COMPETITION AND TRADE-MARKS §§ 1, 141, 142, 143, AT 1-2, 294–298 (2D ED. 1917); JAMES LOVE HOPKINS, THE LAW OF TRADEMARKS, TRADENAMES AND UNFAIR COMPETITION §§ 90-93, AT 219-241 (2D ED. 1905); 3 LOUIS ALTMAN & MALLA POLLACK, CALLMANN ON UNFAIR COMPETITION, TRADEMARKS & MONOPOLIES, Ch. 14 (West 2020). *See also* Bone, *supra*, at 251-261; Lemley, *The Surprising Virtues of Treating Trade Secrets as IP Right*s, *supra*, at 312-322; Hrdy & Lemley, supra, at 16-17.

[41] The First Restatement was drafted in 1939 to reflect the state of the common law. It defined a trade secret as "any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it." It also instructed courts to consider, as one of six factors, "the value of the information to the plaintiff's business and to its competitors." RESTATEMENT (FIRST) OF TORTS § 757 cmt. b. (1939). New York cases continue to use the common law and the First Restatement. *See* Telerete Sys., Inc. v. Caro, 689 F. Supp. 221, 232 (S.D.N.Y. 1988) ("Even a slight competitive edge will satisfy this requirement of trade secret protection."); *see also, e.g.*, Sheridan v. Mallinckrodt, Inc., 568 F. Supp. 1347, 1352 (N.D.N.Y. 1983).

[42] The Third Restatement was drafted in 1995 to restate the common law and was intended to be compatible with the modern statutory regime. It defined a trade secret a "any information

law in order to determine whether trade secrets are "property" under the Takings Clause, once described "[t]he economic value" of a trade secret as "the *competitive advantage over others*" that it imparts to its owner.[43] While commentators tend to discuss only the "used in one's business" component of the common law,[44] the competitive advantage requirement was arguably far more important. It could arise in virtually every case, regardless of whether the trade secret was being used or not.[45] And, as explained momentarily, unlike the "used in one's business" requirement, it is still incorporated into the law today via the statutory requirement of independent economic value.[46] Thus, it is essential to understand this nuanced and somewhat elusive concept.

In economics, a firm has a competitive advantage if it can earn a higher rate of profit than other firms in the market.[47] Firms can achieve a competitive advantage through a variety of means, such as by lowering costs compared to rivals, by hiring the best talent, or by adopting aggressive marketing campaigns.[48] One of the main ways to gain a competitive advantage is to invest in research and development that results in an "innovation"—something that one's competitors don't have.[49] Indeed, investing in innovation may be the most effective way to gain

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that can be used in the operation of a business or other enterprise and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others." RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 (1995).

[43] *Ruckelshaus*, 467 U.S. at 1012 (emphasis added). U.S. Const. Amd. V.

[44] *See, e.g.,* Claeys, *supra,* at 583.

[45] In fact, courts sometimes interpreted the use requirement loosely, protecting research and know-how when it was related to use, the result of significant expenditures, and imparted an advantage over others. *See* TURNER, *supra,* § 3, at 32-37, § 1, at 111-112.

[46] *See* notes *infra* and accompanying text.

[47] *See* DAVID BESANKO, DAVID DRANOVE, MARK SHANLEY, & SCOTT SCHAEFER, ECONOMICS OF STRATEGY 295-299 (6th Ed. 2013); MICHAEL PORTER, COMPETITIVE ADVANTAGE: CREATING AND SUSTAINING SUPERIOR PERFORMANCE 3 (1985).

[48] PORTER, *supra,* at 11-12; BESANKO, ECONOMICS OF STRATEGY, *supra,* at 308-310. *See also* Glenn Purdue, *Understanding the Economic Value of Trade Secrets*, *American Bar Association Journal*, March 28, 2014.

[49] CHRISTINE GREENHHALGH AND MARK ROGERS, INNOVATION, INTELLECTUAL PROPERTY, AND ECONOMIC GROWTH 4 (2010).

a competitive advantage over rivals.[50] At least until the rivals catch up. This is where trade secret law comes in.

From firms' perspective, trade secrets are legal tools to preserve competitive advantages that would otherwise dissipate due to espionage, subversive employees, and passage of time.[51] Firms may elect to protect some inventions through patents, willingly risking public disclosure of in exchange for a twenty-year-long exclusive right.[52] But firms often choose trade secrecy instead—usually supplemented by a thicket of contractual protections like non-disclosure agreements.[53] They choose trade secrecy for strategic reasons, not wanting to publicly disclose in patents subject matter that is easy to keep secret, or because the information in question is not patentable.[54] A lot of information falls into both categories. It is neither self-disclosing nor patentable. And it is also the type of information that is necessarily exposed to the firm's own employees.[55] On many accounts, one of the main reasons trade secret law arose was to help employers protect hard-won competitive advantages against their own employees, who might

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[50] PORTER, *supra,* at 20; *see also* ERIC VON HIPPEL, THE SOURCES OF INNOVATION 5 (1988).

[51] JAMES POOLEY SECRETS: MANAGING INFORMATION ASSETS IN THE AGE OF CYBERESPIONAGE 1-36, 59-75 (2015); *see also* WILLIAM LANDES AND RICHARD POSNER, *The Economics of Trade Secrecy Law*, in THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW 354-371 (2003).

[52] 35 U.S.C. §§ 101-112, 154 (2011). *See also* Jeanne Fromer, *Patent Disclosure*, 94 IOWA L. REV. 439 (2009).

[53] Contracts serve both as an alternative means of protection and to shore up their legal argument that they took "reasonable" measures to protect their secrets. Varadarajan, *The Trade Secret-Contract Interface, supra,* at 1543. A contract claim may persist even if trade secrecy fails. *See* Orly Lobel, *Enforceability TBD: From Status to Contract in Intellectual Property Law*, 96 B.U. L. REV. 869 (2016). *See also* Michael Burstein, *Exchanging Information Without Intellectual Property*, 91 TEX. L. REV. 227 (2012).

[54] *See Kewanee,* 416 U.S. at 493; *see also, e.g.,* David Teece, *The Strategic management of technology and intellectual property, in* COMPETING THROUGH INNOVATION: TECHNOLOGY STRATEGY AND ANTITRUST POLICIES 13-14 (DAVID TEECE ED., 2013); R. MARK HALLIGAN & RICHARD F. WEYAND, TRADE SECRET ASSET MANAGEMENT 2018: A GUIDE TO INFORMATION ASSET MANAGEMENT INCLUDING RICO AND BLOCKCHAIN 2-16 (2018). *See also* Katherine J. Strandburg, *What Does the Public Get? Experimental Use and the Patent Bargain*, 2004 WIS. L. REV. 81, 104-118 (2004) (discussing disclosing versus self-disclosing inventions).

[55] POOLEY, *supra,* at 29-36.

otherwise be tempted to leave with their former employers' best secrets.[56] For all these reasons, it should not be surprising that the common law, and now the modern statutory regime, use competitive advantage as the touchstone for trade secret protectability.[57] Helping companies retain competitive advantages through legally sanctioned secrecy is a big part of why certain information is protected as a "trade secret" in the first place.

B. Statutory Independent Economic Value Under the UTSA and DTSA

Move now to the modern statutory text. In 1979, the American Bar Association approved the UTSA. Drafted by the Uniform Law Commission, also known as the National Conference of Commissioners on Uniform State Laws, the UTSA was a uniform act that was intended to effectuate codification of the common law.[58] The UTSA was eventually adopted by virtually all states except for New York.[59] Decades later, in 2016, Congress passed the DTSA to provide a new federal civil right of action, on top of a preexisting federal criminal cause of action, and express modelled the text of the federal law on the UTSA.[60] While there are some specific differences,[61] the UTSA's and DTSA's definitions of a "trade secret" are nearly identical.[62] The

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[56] *Id.*, at 17-18. *See also* Catherine Fisk, *Working Knowledge: Trade Secrets, Restrictive Covenants in Employment, and the Rise of Corporate Intellectual Property: 1800-1920*, 52 HASTINGS L. J. 441, 450-460 (2011).

[57] 1 MILGRIM & BENSEN, *supra*, § 1.07A. (describing competitive advantage as the "touchstone" for modern independent economic value).

[58] UTSA, *supra*, at § 1. *See also* Bone, *supra*, at 247; Sandeen & Seaman, *supra*, at 841-842.

[59] New York still uses the common law, including the "use" requirement. *See, e.g.*, Softel, Inc. v. Dragon Med. and Scientific Communications, Inc., 118 F.3d 955, 968 (2d Cir.1997) (applying Restatement of Torts, § 757, comment b, at 5 (1939)).

[60] *See* David Levine & Christoper Seaman, *The DTSA at One: An Empirical Study of the First Year of Litigation Under the Defend Trade Secrets Act*, 53 WAKE FOREST L. REV. 106, 114, 119 (2018). *See also* Economic Espionage Act of 1996 (hereafter "EEA"), codified in 18 U.S.C. §§ 1831-1839 (1996).

[61] There are some differences with respect to misappropriation, damages, and injunctions limiting employment. *See, e.g.*, 18 U.S.C. §1836(b)(3); § 1839(5)-(6).

[62] H.R. REP. NO. 114-529, at 2 (2016) ("The Act's definition of misappropriation is modeled on the Uniform Trade Secrets Act…"); S. Rep. No. 114-220, at 10 (2016). Courts jurisdictions have determined the definitions are virtually identical. *See, e.g.*, Brand Energy & Infrastructure Servs., Inc. v. Irex Contracting Grp., No. CV 16-2499, 2017 WL 1105648, at *3 (E.D. Pa. Mar. 24, 2017); Deerpoint Grp., Inc. v. Agrigenix, LLC, 345 F. Supp. 3d 1207,

DTSA did not preempt the UTSA, meaning plaintiffs can now bring both federal and state law claims.[63]

The modern statutes explicitly eliminated the common law's "used in one's business" requirement. The primary reason for this was the concern that early-stage research and prototypes would not qualify for protection if trade secrecy required actual use in a business,[64] and the emerging belief that trade secret law should fill the "economic holes" left by patent law, helping inventors protect their inventions in the vulnerable "pre-commercial" stages.[65] Trade secrecy was also increasingly seen as a legal mechanism that would generally facilitate efficient sharing of information and reduce wasteful expenditures on "self-help."[66]

However, while actual use is no longer required, the law still demands that a trade secret derive "independent economic value" from not being generally known to others "who can obtain economic value from the disclosure or use of the information[.]"[67] When referring to independent economic value, commentators sometimes use the terms "value" or "economic value" as shorthand.[68] But the requirement is extremely specific. Each of the defining statutory terms—"economic," "potential," "other persons"/"another person," and "independent"—are infused with meaning. The next sections interpret statutory text, relying on various tools of

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1227 (E.D. Cal. 2018); Bombardier Inc. v. Mitsubishi Aircraft Corp., 383 F. Supp. 3d 1169, 1178 (W.D. Wash. 2019).

[63] 18 U.S.C. § 1838 (declining to preempt state remedies for misappropriation of a trade secret).

[64] UTSA, *supra*, § 1, cmt ("The broader definition in the proposed Act extends protection to a plaintiff who has not yet had an opportunity or acquired the means to put a trade secret to use."); *see also* Hrdy & Lemley, *supra*, at 21-22, 24-25, 30-31.

[65] LANDES & POSNER, *supra*, at 359. *See also* UTSA, Prefatory Note ("In view of the substantial number of patents that are invalidated by the courts, many businesses now elect to protect commercially valuable information through reliance upon the state law of trade secret protection.").

[66] *Kewanee*, 416 U.S. at 485-486, 493; *see also* Lemley, *The Surprising Virtues of Treating Trade Secrets as IP Right*s, *supra*, at 311, 338-339.

[67] UTSA, *supra*, at § 1 (emphasis added). The DTSA is identical except it uses the singular "another person" instead of "other persons." 18 U.S.C. § 1839(3)(B). *See* discussion *infra*.

[68] *See, e.g.*, Sun Media Sys. Inc. v. KDSM, LLC., 564 F. Supp. 2d 946, 969-970, 2008 U.S. Dist. LEXIS 52306, *62-64 (S.D. Iowa 2008).

construction like the dictionary,[69] legislative history,[70] and the reasoning of restatements and major treatise.[71] It also incorporates responses from an interview with a former drafter of the UTSA.[72]

1. Economic – The First Restatement had defined the universe of trade secret subject matter narrowly, indicating that a "trade secret" would generally be a "process or device for continuous use in the operation of the business[,]" and would "generally relat[e] to the production of goods, as, for example, a machine or formula for the production of an article."[73] In contrast, the modern UTSA and DTSA regimes expand the universe of trade secrets to "information" writ large and do not contain limiting concepts like use in business or relation to the production of goods.[74] They also use the extremely broad term "economic" to define the type of value that matters.

The UTSA drafters had initially proposed the term "commercial" to modify value, but they rejected "commercial" value in favor of the modifier economic." There has been some debate over the significance of this choice.[75] But a variety of evidence supports that the drafters perceived the terms "economic" and "commercial" value as virtually identical in substance. The drafters of both the UTSA and the DTSA continued to use the term "commercial" value

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[69] Sandeen & Seaman, *supra*, at 865–884 (discussing various sources of interpretation for the DTSA).

[70] H.R. REP. NO. 114-529 (2016); S. REP. NO. 114-220 (2016); UTSA, *supra*, § 1 cmt. *See also* Sandeen & Seaman, *supra*, at 865–884 (discussing various sources of interpretation for the DTSA, including the UTSA and its accompanying commentary).

[71] 1 MILGRIM & BENSEN, *supra,* § 1.07A.

[72] I interviewed Professor Richard Dole about these terms' meaning. Dole was a member of the "Special Committee on Uniform Trade Secrets Protection Act" and involved in drafting the UTSA. (Interview on file with the author.) I use this interview solely to get a sense of how the drafters may have perceived the terms' meanings in 1979, not as a definitive source of statutory interpretation. *See also* Sandeen, *Evolution of Trade Secret Law*, *supra*, at 512-513, 518.

[73] RESTATEMENT (FIRST) OF TORTS § 757 cmt. b. (1939) (emphasis added).

[74] UTSA, *supra,* § 1; 18 U.S.C. § 1839(3).

[75] *Compare* Ramon A. Klitzke, *The Uniform Trade Secrets Act*, 64 MARQ. L. REV. 277, 289 (1980) (suggesting the choice of economic was important) *with* Sandeen, *supra*, at 525-526 (arguing economic was synonymous with commercial).

alongside the text's reference to "economic" value.[76] The dictionary definitions are similar in spirit, referencing analogous concepts such as trade, industry, wealth-creation, and pursuit of profit.[77] Instead, the UTSA's drafters decided to eschew the term "commercial" in order to highlight the fact that current use in commercial operations is no longer required and that the asserted value can now include "potential" future value as well as actual current value.[78] In other words, the choice of "economic" over "commercial" was intended to modify the *timeline* on which value is to be measured, rather than the substance of the value that counts.

Whether we call it "commercial" or "economic" value, it seems clear that the UTSA and the DTSA recognize an exceptionally broad range of ways to capture the value of information. Economic value can be derived in the traditional way, by using information to improve a business' production of goods. Economic value can also come from early-stage research and "negative know-how" (knowledge of what not to do)[79]; from licensing information to others for

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[76] RESTATEMENT (THIRD) OF UNFAIR COMPETITION, § 39 cmt. (e), § 44, cmt. (c) (1995). *See also* S. REP. NO. 114-220 (2016).

[77]The Oxford English dictionary defines "economic" as "relating to economics or the economy"; relating to "trade, industry, and the creation of wealth"; "justified in terms of profitability"; or "requiring fewer resources or costing less money." OXFORD ENGLISH DICTIONARY, https://en.oxforddictionaries.com/definition/economic (last visited, June 23, 2021). The same dictionary defines "commercial" in relevant part as "concerned with or engaged in commerce"; "making or intended to make a profit";" "having profit rather than artistic or other value as a primary aim." OXFORD ENGLISH DICTIONARY, https://www.lexico.com/definition/commercial (Last visited, July 6, 2021). On the use of dictionary evidence to interpret the DTSA and UTSA, see Sandeen & Seaman, *supra*, at 863–64.

[78] Dole expressed the view that the terms economic value and commercial value are the same, *except* that "economic value" encompasses "potential commercial value."

[79] UTSA, *supra*, § 1 cmt.

use[80]; and even from intentionally hiding the information in order to avoid competing with a businesses' other product lines.[81]

However, the concept of economic value is not without limit. Information whose value lacks any relationship to economic activity—to wealth creation, profit-seeking, industry, or trade—does not qualify as having economic value. This principle does not deny trade secrets to not-for-profit companies in the tax law sense.[82] Nonprofit entities have successfully protected their donor lists as trade secrets, for example.[83] Yet there are some scenarios where the value in question is simple not economic in nature. For instance, a secret recipe for cookies that a person uses only at home in the kitchen, and for which they have no commercial intentions, does not derive economic value from secrecy. More broadly, as explained in Part IV, if the putative trade secret consists of information with no connection to what a business actually does, then this too would fail to derive value that is "economic" in nature.[84]

2. Potential – One of the most legally significant features of the statutory text is its use of the word "potential." Both the UTSA and the DTSA provide that the economic value of a trade

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[80]. For a recent example of a case recognizing licensing value as a form of economic value under the DTSA, see, e.g., Zabit v. Brandometry, LLC, 2021 U.S. Dist. LEXIS 94234, *24-25 (S.D.N.Y. 2021) (finding plaintiffs allege facts supporting a plausible claim that "the information derives independent economic value, actual or potential" because they allege that they can license the algorithm, and that license was valued at $540,000 …" and noting that "the DTSA covers potential value…").

[81] For a recent example of a case recognizing licensing value as a form of economic value under the DTSA, see, e.g., Zabit v. Brandometry, LLC, 2021 U.S. Dist. LEXIS 94234, *24-25 (S.D.N.Y. 2021) (finding "the information derives independent economic value, actual or potential" because plaintiffs allege they can license the algorithm, and that license was valued at $540,000…").

[82] The Third Restatement, for example, states that "[a]lthough rights in trade secrets are normally asserted by businesses and other commercial enterprises, nonprofit entities … can also claim trade secret protection for economically valuable information such as lists of prospective members or donors." *See* RESTATEMENT (THIRD) OF UNFAIR COMPETITION, § 39, cmt. (d) (1995).

[83] *See, e.g.,* Religious Tech. Ctr. v. Netcom On-Line Commun. Servs., 923 F. Supp. 1231, 1251, 1995 U.S. Dist. LEXIS 16184, *50 (D. Ct. N. D. Cal. 1995) ("Nonprofit entities such as … religious organizations can also claim trade secret protection for economically valuable information such as lists of prospective members or donors.").

[84] *See* notes *infra* and accompanying text.

secret can be "actual *or potential* …"[85] Some commentators have suggested this indicates that the trade secret owner can protect practically anything.[86] However, the modifier "potential" does not necessarily make it easier to obtain and maintain a trade secret in every case.[87] The Commentary to the UTSA indicates that the drafters of the UTSA utilized the modifier "potential" in order to clarify that, unlike under the common law, trade secrets did not have to be used in a business and could thus consist of research, prototypes, and other information that was not yet in regular use in a business.[88] They intended to expand the timeline for trade secret protection into the earlier stages. For example, they believed a prototype for an invention not yet in use should be protected, even if the common law would have excluded it.[89]

Far from opening the door to all trade secrets with merely hypothetical value, the reference to "potential" value actually suggests that there is a window of time during which trade secrets can be protected and it is possible for some information to fall outside of that timeframe, either because it is far too early for them to have even potential value, or because any potential they once had has dissipated over time.[90] These issues are discussed further in Part IV.

3. Economic Value From Not Being Known to Other Persons/Another Person – The statutory text incorporates the common law idea of competitive advantage. The law provides, in relevant part, that information must derive economic value from not being known to "other persons," or, under the DTSA, to "another person,"[91] who could "obtain economic value from [the information's] disclosure or use [.]"[92]

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[85] 18 U.S.C. § 1839(3); UTSA, *supra*, § 1 (emphasis added).

[86] Risch, *Trade Secrets and Development Incentives, supra,* at 166-167; Claeys, *supra*, at 599.

[87] *Accord* Sandeen, *supra*, at 524.

[88] UTSA, *supra*, § 1 cmt.

[89] *See, e.g.*, Leatt Corp. v. Innovative Safety Tech., LLC, No. 09-cv- 01301, 2010 WL 1526382, at *5-6 (S.D. Cal. Apr. 15, 2010) (holding prototype for neck brace protectable as trade secret).

[90] *C.f.* Hrdy & Lemley, *supra,* at 43-48 (arguing that trade secrets can lose their potential value over time and become unprotectable or be abandoned by their former owner).

[91] The DTSA might seem at first glance to have made the economic advantage standard less strict by using a singular noun "another person" in lieu of the UTSA's plural noun "other persons." *Compare* UTSA, *supra,* § 1 *with* 18 U.S.C. § 1839(3)(B). However, the change was intended to make the federal definition of *secrecy* stricter and "in conformity" with the UTSA's. It was not intended to be "meaningfully different from the scope of that definition as

This text is unwieldy, but it seems clear the drafters' goal was to invoke competitive advantage, or something similar to it.[93] The general rule, in interpreting statutes, is that they are assumed to incorporate common law principles that were "well-established" at the time of drafting except where a "statutory purpose to the contrary is evident."[94] As discussed above, competitive advantage was certainly well-established. It was also explicitly referenced in the UTSA Commentary.[95] Congress also used the phrase repeatedly in the DTSA's legislative history.[96] A diverse range of courts and commentators have concluded that "independent economic value" was intended to carry forward the concept of "competitive advantage," or similar concepts like "business advantage" and "economic advantage."[97]

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understood by courts in States that have adopted the UTSA." *See* S. REP. NO 114-220, at 10 (2016)). The EEA had used "the public" to refer to the audience from whom information must be secret, which was viewed as a problematic reference point for defining secrecy. *See* United States v. Lange, 312 F.3d 263, 267 (7th Cir. 2002) ("A problem with using the general public as the reference group for identifying a trade secret is that many things unknown to the public at large are well known to engineers, scientists, and others …"). Notably, the UTSA drafters themselves had played with the idea of using a singular term to describe from whom the information must be unknown. *See* UTSA, *supra,* § 1 cmt.

[92] 18 U.S.C. § 1839(3); UTSA, *supra,* § 1. *See also* Johnson, *supra,* at 567-569.

[93] Dole, when asked, "How does "independent economic value" relate to "competitive advantage," answered: "They are similar concepts."

[94] *See* Astoria Fed. Sav. & Loan Assn. v. Solimino, 501 U.S. 104, 108 (1991).

[95] *See, e.g.,* UTSA, *supra,* § 1, cmt. ("Because a trade secret need not be exclusive to confer a competitive advantage, different independent developers can acquire rights in the same trade secret.").

[96] The Senate Report states that trade secrets are "an integral part" of the "competitive advantage" of "many U.S.-based companies[,]" and refers to trade secrets as "commercially valuable" information "kept confidential by companies because, by virtue of their secrecy, they give companies an edge in a competitive marketplace." *See* S. REP. NO. 114–220 (2016).

[97] 1 MILGRIM & BENSEN, *supra,* § 1.07A; 1 MELVIN F. JAGER, TRADE SECRETS LAW § 3:35 (West 2020); ROWE & SANDEEN, supra, at 146. *See also, e.g.,* Electro-Craft Corp. v. Controlled Motion, Inc., 332 N.W.2d 890, 900 (Minn. 1983); Religious Tech. Ctr. v. Wollersheim, 796 F.2d 1076, 1090 (9th Cir. 1986); Morlife, Inc. v. Perry, 56 Cal. App. 4th 1514, 1522, 66 Cal. Rptr. 2d 731, 736 (1997); Calisi v. Unified Fin. Servs., LLC, 232 Ariz. 103, 108 (U.S. D. Ct. Az. 2013); Altavion, Inc. v. Konica Minolta Sys. Lab., Inc., 226 Cal. App. 4th 26, 62, 171 Cal. Rptr. 3d 714, 743, n. 26 (2014).

Perhaps the clearest evidence of competitive advantage's continuing relevance comes from Massachusetts, which was the last state to adopt the UTSA besides New York[98] and which only adopted the UTSA after the passage of the DTSA. The Massachusetts legislature specifically replaced the phrase "independent economic value" with the phrase "*economic advantage*" from not being known to others "who might obtain *economic advantage* from [information's] acquisition, disclosure or use[.]"[99] This reflects the common perception that independent economic value just means economic advantage due to secrecy. The phrase "economic advantage" is arguably more accurate than competitive advantage, because courts had long held under the UTSA that the "other persons" to whom a trade secret must have value need not be direct competitors.[100] The "economic advantage" concept ensures information can have the requisite economic value to a wider variety of actors, including a future competitor who might arise. This caveat is especially important for early-stage companies where there is no identifiable competitor in the market to whom information might have value.[101]

4. Independent – The term "independent" is the most ambiguous term in the trade secrets statutes. The UTSA and DTSA state, in relevant part, that the secret has to derive "*independent* economic value" from not being known to others.[102] The law does not define "independent" or explain what it means. It leaves significant room for speculation and divergence in opinion.[103]

One view is that "independent" means the information must be valuable in its own right rather than deriving its value derivatively from other information.[104] So, for example, one court

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[98] New York still uses the common law and the First Restatement. 24 Seven, LLC v. Martinez, No. 19-CV-7320 (VSB), 2021 WL 276654, at *4-5 (S.D.N.Y. Jan. 26, 2021).

[99] MASS. GEN. LAWS. Ch. 93, § 42(4)(i) (2020) (emphasis added). *See also* Act of Aug. 10, 2018, ch. 228, § 19, 2018 Mass. Acts 101.

[100] *See* UTSA, *supra*, § 1 cmt.; *see also, e.g., Religious Tech. Ctr*., 923 F. Supp. at 1253; Altavion, Inc. v. Konica Minolta Sys. Lab., Inc., 226 Cal. App. 4th 26, 62, 171 Cal. Rptr. 3d 714, 743 (2014). I also asked Dole: "Who are the "other persons" who could obtain value from the information?" He said: "Actual or potential competitors."

[101] Thanks to Mark Lemley for this caveat. *See also* Hrdy & Lemley, *supra*, at 19-24.

[102] UTSA, *supra*, § 1 (emphasis added); 18 U.S.C. § 1839(3)(B).

[103] *See* Johnson, *supra*, at 570-573.

[104] *See, e.g.,* Providence Title Co. v. Truly Title Co. at al No. 4:21-CV-147-SDJ, 2021 WL 2701238, at *17 (E.D. Tex. July 1, 2021) ("[A] trade secret must have *independent* economic

dismissed a claim seeking to protect passwords as trade secrets, reasoning that the value of a password is "dependent" on the information it protects.[105] But this view sweeps too broadly. Virtually all trade secrets are to some degree dependent on other information or inputs to be rendered valuable.[106] It is unlikely this is the interpretation the drafters had in mind.

The better interpretation of "independent," and the one this article adopts, is that it emphasizes that a trade secret's economic value must derive precisely from the fact that it is secret. Several courts[107] and commentators[108] share this interpretation. To understand the importance of this principle, consider a world in which the statutes did not clarify value must come from secrecy. If this were the case, trade secret law could protect an infinite variety of competitive advantages, even if they have nothing to do with secrecy at all. Perhaps a company has economies of scale that allow it to operate at lower costs; perhaps it hires the best talent.

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value" and plaintiff's "salary and revenue information is not *independently* valuable; rather, the information is valuable only to the extent that it can be used successfully to aid in the solicitation of valuable [plaintiff] employees.").

[105] *State Analysis, Inc. v. Am. Fin. Servs. Assoc.*, 621 F. Supp. 2d 309, 321 (E.D. Va. 2009). *But see* Compass iTech, LLC v. eVestment All., LLC, No. 14-81241-CIV, 2016 WL 10519027, at *13–14 (S.D. Fla. June 24, 2016) (holding "usernames and passwords" can potentially be trade secrets) (applying Florida UTSA). *See also* Simmons Hardware Co. v. Waibel, 1 S.D. 488, 47 N.W. 814, 816 (1891) (granting injunction under common law to protect secret code used to decipher contents of catalogues used by salesman, writing "[t]he original catalogue was of itself of but trifling value, but with the private code or system of plaintiff marked therein it was of great value.").

[106] For example, the UTSA was expressly intended to cover negative know-how (knowledge of what not to do), which is valuable only to the extent it can be used to aid in the successful creation of "positive secrets" about what does work. UTSA, *supra*, § 1, cmt.

[107] Mangren Research & Dev. Corp. v. Nat'l Chem. Co., 87 F.3d 937, 942 (7th Cir. 1996) (IUTSA); *see also* DTM Research, L.L.C. v. AT & T Corp., 245 F.3d 327, 332 (4th Cir. 2001).

[108] Dole, for his part, stated that the purpose of the term "independent" is "to emphasize that the value of the information should derive from its secrecy." *See also, e.g.*, ROWE & SANDEEN, *supra*, at 146 ("[T]he identified information must have demonstrable commercial value *because* it is a secret."); POOLEY, *supra*, at 29-30, 63 (discussing competitive advantage and value from secrecy).

These are valuable competitive advantages, but their value to the owner is not due to their secrecy.[109] Instead, value must come specifically from secrecy.

One might argue that, on this reading, the addition of the word "independent" is redundant, because the statute already says information's asserted economic value must derive from the fact that it is not generally known to others.[110] However, this is not true. By stating that information must derive "independent" economic value from its secrecy, the statute clarifies that the secret aspect of the information, in specific, must be what causes the value. If the asserted trade secret involves a combination of public and non-public elements, as is often the case, the value at issue must come from the secret elements, not the public or otherwise unprotectable elements.[111] One court illustrated this concept using the example of a design for the wing of an airplane. Simply alleging that the wing design is valuable because it helps the airplane fly does not demonstrate that the secret aspects of the wing design impart an economic advantage over others due to their secrecy; one has to show specifically that *the secret parts of wing design* are valuable and give the holder an advantage over others. "Airplanes need wings to fly, but that does not mean that all wing designs have independent economic value."[112]

Importantly, this value-from-secrecy component cuts both ways. It limits protection for information whose economic value does not come specifically from secrecy; yet it also grants protection for information whose economic value does come from secrecy, even if it might not resemble a traditional trade secret. For example, take the cases involving protectability of passwords, discussed directly above. A password quite literally derives its value from secrecy. A password's entire economic value rests upon being kept secret, and if it were disclosed, it would

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[109] *See, e.g.*, 1 MILGRIM & BENSEN, *supra*, at § 1.07A (observing that showing of competitive advantage does not by itself establish independent economic value, "because the competitive advantage may be due to something other than the alleged secret, such as, for example, to the owner's expertise in the field."); SI Handling Sys., Inc. v. Heisley, 753 F.2d 1244, 1267 (3d Cir. 1985) (noting the complications that arise when employees' knowledge, skill, and experience is "inextricably related to the information or process that constitutes an employer's competitive advantage…").

[110] 18 U.S.C. § 1839(3)(B); UTSA, *supra*, § 1.

[111] *See* notes infra and accompanying text.

[112] *See* Yield Dynamics, Inc. v. TEA Sys. Corp., 154 Cal. App. 4th 547, 566-567 (2007).

lose that value. Passwords thus give an economic advantage to their holder as a result of being kept secret, even if they don't seem economically valuable in a traditional sense.[113]

This interpretation of "independent" to the value requirement is essential. Its importance will become clearer in Part IV, where the article defines a "causation failure."

II. Challenging the Prevailing Wisdom About Independent Economic Value

The prevailing wisdom is that courts apply a low bar for independent economic value and that independent economic value is generally "the subject of less litigation than the secrecy or reasonable efforts requirements."[114] Moreover, even when courts do assess it, they tend to "allow a secret's economic value to be established through inference"[115] and "circumstantial evidence"—in particular, "the amount resources invested by the plaintiff in the production of the information" and "the precautions taken by the plaintiff to protect the secrecy of the information[.]"[116] There is some empirical support for this view. Research from both state and federal trade secret cases decided before the DTSA was passed found that courts rarely addressed independent economic value and addressed it much less frequently than the requirement of taking reasonable secrecy precautions. In a 2009 study of trade secret claims brought in federal courts between 1950 and 2008, David Almeling and several co-authors found that "only a few courts addressed the value element, and only a few of those courts held that the element was not satisfied."[117] Two years later, the same group of co-authors found similarly low numbers in a study of trade secret cases brought in state courts.[118]

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[113] One could try to argue a password's value isn't sufficiently economic in nature. However, this is too strict a reading of "economic." Passwords, unlike inapposite information about management or employees, *are* connected to the business, so long as what they are protecting is connected to the business.

[114] 1 MILGRIM & BENSEN, *supra*, at § 1.07A; *see also* ROWE & SANDEEN, *supra*, at 146.

[115] DAVID QUINTO & STUART SINGER, TRADE SECRETS: LAW AND PRACTICE 103 (2D. ED 2012).

[116] RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. e (1995).

[117] *See* David S. Almeling, Darin W. Snyder, Michael Sapoznikow, Whitney E. McCollum & Jill Weader, *A Statistical Analysis of Trade Secret Litigation in Federal Courts*, 45 GONZ. L. REV. 291, 319 (2009).

[118] David S. Almeling, Darin W. Snyder, Michael Sapoznikow, Whitney E. McCollum & Jill Weader, *A Statistical Analysis of Trade Secret Litigation in State Courts*, 46 GONZ. L. REV. 57, 91 (2011).

It is not hard to discern why courts have given economic value short shrift. The reason is that courts generally assume that any information that the plaintiff has developed and successfully kept secret, and that thereafter ends up as the subject of litigation, has at least "potential" economic value to the plaintiff or to others.[119]

Economic value, in this sense, resembles other doctrines within the intellectual property field that, at first blush, appear redundant, such as patent law's requirement of "utility."[120] One might think there is no need for the law to legally require a patented invention to be useful. After all, "a truly useless invention should be worthless, so who would go through the expense of patenting it?"[121] And why else would the patentee ever be in a position to enforce the patent against someone else in court?[122] But utility, it turns out, is not redundant. In certain situations, a legal mandate of utility plays an important role in controlling patentability and patent.[123] These situations include where the patent applicant asserts a utility for the invention that is not credible based on current science,[124] that is vague and non-specific,[125] or that is purely hypothetical and not presently availing.[126]

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[119] *See* Cundiff, *supra* note, at 73. *See also* Johnson, *supra*, at 557 (noting that commentators assume that any information that ends up in litigation has "considerable value") (quoting ROGER E. SCHECHTER & JOHN R. THOMAS, PRINCIPLES OF PATENT LAW 417 (2d ed. 2004)). *See also* QUINTO & SINGER, *supra*, at 103 (writing that "if the secret were not valuable, the plaintiff would not have expended substantial resources to develop it and would not have undertaken extraordinary means to protect its secrecy.").

[120] 35 U.S.C. § 101 (2011); ROBERT P. MERGES & JOHN F. DUFFY, PATENT LAW AND POLICY: CASES AND MATERIALS 211 (5TH ED. 2011).

[121] *See* MERGES & DUFFY, *supra*, at 211 (provocatively positing this question). *See also* Bedford v. Hunt, 3 F. Cas. 37, 37 (C.C. Mass. 1817) (writing that if an invention's utility is "very limited, it will follow, that it will be of little or no profit to the inventor; and if it be trifling, it will sink into utter neglect.").

[122] As the Federal Circuit once put it, the fact that someone else, the defendant, is allegedly using or selling the claimed invention, and the plaintiff wants them to stop, serves as "proof of that device's utility[,]" for "[p]eople rarely, if ever, appropriate useless inventions.Raytheon Co. v. Roper Corp., 724 F.2d 951, 959 (Fed. Cir. 1983).

[123] *See* MERGES & DUFFY, *supra*, at 212-214 (discussing incredible utility doctrine), 231-232 (discussing utility's role in controlling the timing for when a patent can be obtained), 256-259 (discussing utility's impact on racing and patent scope).

[124] *See, e.g.*, In re Swartz, 232 F.3d 862, 864 (Fed. Cir. 2000) (denying patent for methods of generating energy using "cold fusion" due to both lack of utility and failure of enablement). In

Trade secret law's independent economic value requirement is similar to requirements like patent utility in this respect.[127] Independent economic value at first seems redundant. Just as no one would bother to patent a useless invention, so no one would bother to protect, let alone litigate over, a valueless trade secret. Yet closer scrutiny reveals this premise to be entirely unfounded and based on a number or erroneous assumptions. The mere fact that a company has taken steps to keep information secret and has hired lawyers to enforce the secret in court does not prove the information has any value at all—let alone the sort of value contemplated by the statutes. There are a variety of premises at work which need to be identified and evaluated. As shown below, none of these on its own provides a solid case for ignoring or downplaying independent economic value.

A. Secrecy Does Not Equal Economic Value From Secrecy

The first wrong assumption is that secrecy, on its own, indicates information has economic value from secrecy. Some commentators have suggested that the fact that information is secret—not "generally known" or "readily ascertainable using proper means" to others[128]—indicates that the information represents "some degree of advance over the common place."[129]

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these cases utility can overlap with "enablement" under 35 U.S.C. § 112. Seymore, *supra*, at 1083-1084.

[125] In re Fisher, 421 F. 3d 1365, 1371-1372 (Fed. Cir. 2005) (holding patent application "must disclose a use which is not so vague as to be meaningless" and identify a "specific utility" that "is particular to the subject matter claimed" and that "would not be applicable to a broad class of invention."). *See also* MERGES & DUFFY, *supra,* at 231-232.

[126] Brenner v. Manson, 383 U.S. 519, 534-535 (1966) (holding that to satisfy utility the invention must be "refined and developed" to the point "where specific benefit exists in currently available form[.]").

[127] This article is not the first to draw the analogy between independent economic value and utility. *See* Risch, *Trade Secrets and Development Incentives, supra*, at 166-167 (observing briefly that trade secret value "resemble[s] the patent requirement for usefulness."); Graves & Katyal, *supra*, at 1407 ("The requirement of independent economic value resembles the patent requirement for usefulness.").

[128] 18 U.S.C. § 1839(3) (2016). *See also* Hrdy & Sandeen, supra, at 1287-1289 (explaining this secrecy standard).

[129] 1 MILGRIM & BENSEN, *supra*, § 1.08.

The Supreme Court itself once casually suggested that "secrecy, in the context of trade secrets…implies at least minimal novelty."[130]

The comparison between secrecy and novelty is misleading. In patent law, inventions are compared to the prior art—printed publications, prior patents, and the like—to determine whether they are sufficiently novel and nonobvious to receive a patent.[131] But secrecy, for trade secret law purposes, does not indicate information is new over the publicly available prior art or even that the information is exclusive to a single company.[132] Multiple firms can possess the same trade secret and use it competitively in private, so long it is not "generally known" to people in the industry.[133] When information's secrecy is challenged in court, there is no reliable way to discern what other companies know or do not know behind closed doors. Unless the information is contained in public sources, the parties have mainly the statements of experts to speak on the issue.[134]

Moreover, even if secrecy does imply "minimal novelty," in the sense of being unknown to most other firms in an industry, this says little about whether the information imparts economic value due to its secrecy. Even if the secret is a fully novel invention in the patent law sense, this does not mean it has economic value.[135] A new way of performing a task, for instance, might be new and nonobvious; but it might be much less effective than methods known in the prior art and commercially worthless.[136]

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[130] Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 476 (1974).

[131] 35 U.S.C. §§ 102-103 (2011); *see also* Hrdy & Sandeen, *supra*, at 1278-1284.

[132] *See* Hrdy & Sandeen, *supra*, at 1288-1307.

[133] *Id*. at 1288, 1315-1316. *See also* UTSA, *supra,* § 1 cmt. ("If the principal persons who can obtain economic benefit from information are aware of it, there is no trade secret.").

[134] *See, e.g., U.S. Gypsum Co. v. Lafarge N. Am. Inc.*, 670 F. Supp. 2d 748, 764 (N.D. Ill. 2009) (permitting defendant's technical expert to "opine on what information constitutes a trade secret, based on what was known and generally available in the wallboard industry at the time in question.")

[135] 35 U.S.C. § 102(a)(1) (2011) (providing that an invention cannot be patented if it was, among other things, described in a "printed publication" or in "public use").

[136] Courts held early in patent law's history "that an invention need not 'supersede all other inventions now in practice' or even be commercially useful at all." *See* Risch, *Reinventing Usefulness, supra*, at 1204 (quoting *Bedford v. Hunt*, 3F. Cas. 37, 37 (C.D.D. Mass. 1817)); *see also* Risch, *A Surprisingly Useful Requirement, supra*, at 67.

The assumption that secrecy equals value might be appropriate in a world in which trade secrets were limited to potentially valuable inventions that many entities in the marketplace are striving to achieve.[137] For example, if the secret is a solution to a recognized problem in a field, then the fact that only one or a few firms possess the solution is itself strong evidence that it is valuable to the holder and would be to others. But the assumption that secrecy equals value is unfounded with respect to the larger universe of trade secret subject matter. For sure, the classic example of a trade secret is a tremendously valuable formula or process that competitors only wish they could replicate.[138] But putative trade secrets can be run-of-the-mill modifications to well-known processes and products.[139] They can be business information like how to run a group meeting or the identity of customers and clients.[140]

In sum, even a company's best-kept secrets might be commercially worthless, especially if they were vetted against what is known in the rest of the industry. Secrecy does not mean economic value due to secrecy.

B. Secrecy Precautions May Not Be Probative of Economic Value From Secrecy

Another wrong assumption is that independent economic value can be inferred from the fact that the plaintiff took special precautions to keep the information secret. Under the law, anyone seeking to protect information as a trade secret must show they used "reasonable" secrecy measures, such as safes, passwords, firewalls, and non-disclosure agreements.[141] Some

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[137] William Landes and Richard Posner appear to make this assumption in their analysis, where they suggest that "inventions" that are successfully kept as trade secrets, instead of patented and disclosed, are likely to be "nonobvious and deserving of some legal protection" under patent law standards, since others in the field by definition do not know the invention and have failed to figure it out despite striving to "reinvent" it. LANDES & POSNER, *supra*, at 358.

[138] *C.f.* Rohm & Haas Co. v. Adco Chem. Co., 689 F.2d 424 (3d Cir. 1982) (holding for plaintiff Rohm & Haas in a scenario in which the defendant Adco had been actively striving, without success, to replicate plaintiff's process for making a popular latex paint vehicle).

[139] 1 MILGRIM & BENSEN, *supra*, § 1.09 [4].

[140] *Id*. at § 1.09 [7].

[141] 18 U.S.C. § 1839(3). *See also* David W. Slaby, James C. Chapman, & Gregory P. O'Hara, *Trade Secret Protection: An Analysis of the Concept "Efforts Reasonable Under the Circumstances to Maintain Secrecy"*, 5 SANTA CLARA COMPUTER & HIGH TECH. L.J. 321, 323 (1989*);* Robert G. Bone, *Trade Secrecy, Innovation, and the Requirement of Reasonable Secrecy Precautions*, *in* THE LAW AND THEORY OF TRADE SECRECY, *supra*, at 46-60; Deepa Varadarajan, *Trade Secret Precautions, Possession, and Notice*, 68 HASTINGS L.J. 357 (2017).

courts reason that a plaintiff's efforts to restrict access to information indicates the information is valuable and even necessary for "maintaining an advantage over its competitors."[142] As Elizabeth Rowe observes, courts tend to see a "direct relationship between the value of the information and the extent to which the company made efforts to protect it[.]"[143] The reasoning is that if information were highly valuable, the company would try hard to protect it, whereas few rational entities would bother to spend resources guarding worthless information.[144]

However, it is not true that any information entities bother to keep secret is valuable. Gone are the old days when keeping secrets primarily meant building an unbreakable vault or placing a massive roof over a chemical plant to hide what happens inside.[145] In practice, the most important secrecy measures may be legal—have everybody sign nondisclosure agreements[146]—and digital, like mandating that everyone use two-factor authentication.[147] For sure, increasing digitization of information and increasing use of machines in the workplace (automation) can make misappropriation of trade secrets easier. Hackers can spy, collect, and countermand from a

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[142] *See, e.g.*, Teva Pharms. USA, Inc. v. Sandhu, 291 F. Supp. 3d 659, 675 (E.D. Pa. 2018) ("These documents contain information that was not available outside Teva because it was classified as confidential and Teva took measures to restrict access to it. Its value was essential to Teva's maintaining an advantage over its competitors."); *see also* Gen. Sec., Inc. v. Commercial Fire & Sec., Inc., No. 17 Civ. 1194, 2018 U.S. Dist. LEXIS 105794, 2018 WL 3118274, at *2 (E.D.N.Y. June 25, 2018).

[143] Elizabeth A. Rowe, *Contributory Negligence, Technology, and Trade Secrets*, 17 GEO. MASON L. REV. 1, 10 (2009).

[144] Deepa Varadarajan, *Trade Secret Fair Use*, 83 FORDHAM L. REV. 1401, 1454, n. 35 (2014) (discussing *Rockwell*, 925 F.2d at 179-180). *See also, e.g..,* Cemen Tech, Inc. v. Three D Indus., L.L.C., 753 N.W.2d 1, 8–9 (Iowa 2008).

[145] *C.f.* E. I. duPont deNemours & Co. v. Christopher, 431 F.2d 1012, 1016 (5th Cir. 1970) "To require DuPont to put a roof over the unfinished plant to guard its secret would impose an enormous expense to prevent nothing more than a school boy's trick.").

[146] Deepa Varadarajan, *The Trade Secret-Contract Interface*, 103 IOWA L. REV. 1543, 1557-1562 (2018) (discussing courts' tendency to allow the mere use of non-disclosure agreements to satisfy plaintiff's obligation to prove reasonable secrecy precautions).

[147] Rowe, *Contributory Negligence, Technology, and Trade Secrets*, *supra*, at 36 (noting that the "use of technological tools such as firewalls, user monitoring, and encryption are now more widely used to protect data."). *See also* Jonathan Green, *Trade Secrets and Data Security: A Proposed Minimum Standard of Reasonable Data Security Efforts When Seeking Trade Secret Protection for Consumer Information,* 46 CUMB. L. REV. 181, 183 (2016) (proposing a "minimum standard of reasonable data-security protection within trade secret law when certain trade secret information is generated from or contains consumer information.").

distance, and employees can transfer data with the click of a button.[148] But automation can also facilitate secrecy. When the only entities interacting with the secrets are machines, fewer standard secrecy precautions—physical *or* legal—would be required to prevent human workers from taking the information when they leave.[149] There are also considerable economies of scale in keeping secrets. If a large company has a secrecy plan in place, adding more information isn't necessarily more expensive. In fact, it might be more costly for a large company to sift through everything and decide what's valuable and what's not. As a recent report from the Sedona Conference working group on trade secrets observes, the value of information retained by a company "may range from 'crown jewels' to ephemeral data of minimal value[.]"[150] It may be extremely tempting for a company to keep all of its information secret using the same measures, irrespective of value.[151]

In sum, it's quite possible that a lot of the information companies successfully keep secret is not very valuable. Of course, a plaintiff's secrecy precautions might supply decent circumstantial evidence of economic advantage from secrecy *if* the plaintiff shows it took significant secrecy precautions and that those precautions were tailored *specifically* to the information at issue. On the flip side, the fact that a plaintiff took virtually no secrecy precautions could demonstrate *lack* of independent economic value, since this conduct is inconsistent with the assertion that information is valuable due to its secrecy.[152] But as a general matter, it is wrong for courts to infer that the mere existence of secrecy precautions permits a finding of independent economic value.

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[148] Elizabeth Rowe, *Trade Secrets, Data Security and Employees*, 84 CHI. KENT L. REV. 749, 749-750 (2010) (addressing challenges of maintaining secrecy in a digital world).

[149] Jeanne Fromer, *Machines as the New Oompa-Loompas: Trade Secrecy, the Cloud, Machine Learning, and Automation*, 94 N.Y.U. L. REV. 706, 725-726, 717-727 (2019).

[150] *See The Sedonda Conference Commentary on Protecting Trade Secrets Throughout The Employment Life Cycle*, Public Comment Version (June 2021), at 1, 24, available at https://thesedonaconference.org/download-publication?fid=5836

[151] The Sedona report does not condone this, instead urging companies to adopt a "tailored" approach to protecting trade secrets that takes into account the value of the information, among other things, *id*. at 1, 5, 7, and urges employers to "be mindful not to sweep in information that is not their trade secrets," if they wish to protect this later on in court. *Id*. at 25.

[152] *Abrasic 90 Inc*., 364 F. Supp. 3d at 898 (denying motion for preliminary injunction).

C. "Sweat Work" Does Not Equal Economic Advantage From Secrecy

One of the most common forms of evidence used to support independent economic value is the time, effort, and money the plaintiff used to develop the information.[153] Under the common law, courts assessed, as *one factor* in deciding whether a trade secret existed, "the amount of time, effort and money expended by the plaintiff in developing the information."[154] Under the UTSA[155] and now the DTSA[156] many courts use time, effort, and money as evidence that the

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[153] *See, e.g.*, 1 MILGRIM & BENSEN, *supra,* § 1.07A (noting courts will "generally conclude" necessary value element is met so long as secret would require cost, time and effort to duplicate.).

[154] RESTATEMENT (FIRST) OF TORTS § 757 cmt. b. (1939). *See also* TURNER, *supra,* §1, at 107-112, 108 (reviewing cases assessing expenditure of time, money or work, often as evidence of other factors like secrecy, novelty, or value).

[155] *See, e.g.*, De Lage Landen Operational Servs., LLC v. Third Pillar Sys., Inc., 693 F. Supp. 2d 423, 439 (E.D. Pa. 2010) ("Furthermore, we credit the testimony of Martinko and Milone that the development of the use cases took ten full-time employees over two years to complete. This expenditure of time and money by DLL substantiates DLL's claim that they have independent economic value."); Reingold v. Swiftships, Inc., 126 F.3d 645, 650 (5th Cir. 1997 (finding ship mold had independent economic value because, among other things, "it had cost $1 million and had taken nine months to construct the 90 foot ship mold…"). *See also, e.g.*, ISC-Bunker Ramo Corp. v. Altech, Inc., 765 F. Supp. 1310, 1319 (N.D. Ill. 1990); KCH Servs. Inc. v. Vanaire, Inc., 2008 U.S. Dist. LEXIS 73059, *1–2, 8–9, (W.D. Ky. Sept. 23, 2008); AvidAir Helicopter Supply, Inc. v. Rolls-Royce Corp., 663 F.3d 966, 972 (8th Cir. 2011); Dayton Superior Corp. v. Yan, No. 3:12-CV-380, 2013 WL 1694838, at *13–14 (S.D. Ohio Apr. 18, 2013).

[156] For example, in *Medidata Sols. v. Veeva Sys.*, a court in the Southern District of New York denied defendant's motion to dismiss, finding the complaint plausibly alleged independent economic value under the DTSA for a variety of reasons, including because the plaintiff Medidata had "spent a great deal of time and money, $500 million, developing its technology…" Medidata Sols. v. Veeva Sys., No. 17 Civ. 589, 2018 U.S. Dist. LEXIS 199763, 2018 WL 6173349, at * 4 (S.D.N.Y. Nov. 26, 2018); *see also, e.g., Brock Servs.*, 2019 U.S. Dist. LEXIS 231954 at *19 (finding information has independent economic value because plaintiff "invests significant time, money, and energy" into research and development); Trahan v. Lazar, 457 F. Supp. 3d 323, 343 (S.D.N.Y. 2020) (finding information has independent economic value because plaintiff alleges its "IP was very valuable and developed through great effort … 'the product of extensive research, sweat equity, and ingenuity, and worth many millions of dollars.' "); Castellano Cosm. Surgery Ctr., P.A. v. Rashae Doyle, P.A., No. 8:21-CV-1088-KKM-CPT, 2021 WL 3188432, at *5 (M.D. Fla. July 28, 2021) (finding customer list has independent economic value based on testimony "that return customers comprised a substantial source of revenue" and "that the practice cultivated the email list over many years and that it had expended many resources to create the list.").

statutory requirement of independent economic value has been met. Irrespective of whether this approach was appropriate under the common law—which, again, used a factor-based analysis—it is not appropriate under the statutory regime.

Value that comes purely from investment of time, money, and effort is called "sweat work" or "sweat of the brow."[157] In patent, copyright, and trademark law, sweat work alone is an insufficient basis for achieving an IP right. No matter how much is invested in research, development, or advertising and marketing, other substantive criteria like novelty, originality, and distinctiveness govern protectability.[158] The assumption seems to be that trade secret law *does* accept sweat work as a sufficient basis for obtaining an intellectual property right, so long as information is kept secret.[159]

It is true that, as one factor in the analysis, sweat work helps support that information has value from secrecy. If a plaintiff spent $500 million in development, the information is more likely to impart a competitive advantage than if plaintiff spent $10 in development. However, sweat work is at best only as circumstantial evidence of value from secrecy. [160] To others, the information might be easy to develop and only marginally valuable. As the Minnesota Supreme

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[157] MARK LEMLEY, PETER MENELL, ROBERT MERGES, & SHYAM BALGANESH, INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE: 2020 3-4 (2020).

[158] *See* Association for Molecular Pathology v. Myriad Genetics, Inc. Supreme Court of the United States, 569 U.S. 576 (2013). *See also* Feist Publications v. Rural Telephone Service, 499 U.S. 340 (1991). *See also, e.g., Snyder's Lance, Inc. v. Frito-Lay North America, Inc.* __ F.Supp.3d __, 2021 WL 2322931 (W.D.N.C. June 7, 2021) ("[N]o matter how much money and effort the user of a generic term has poured into promoting the sale of its merchandise" it cannot protect a generic term for a product) (quoting *Abercrombie & Fitch Co. v. Hunting World, Inc.*, 537 F.2d 4, 9 (2d Cir. 1976).

[159] *See* Robert Denicola, *Copyright in Collections of Facts: A Theory for the Protection of Nonfiction Literary Works*, 81 COLUM. L. REV. 516, 518 (1981); Jane Ginsburg, *Creation and Commercial Value: Copyright Protection of Works of Information*, 90 COLUM. L. REV. 1865, 1873-1916 (1990). *See also* Risch, *Trade Secrets and Development Incentives, supra*, at 166-167 (asserting with respect to value that "minimal 'sweat of the brow' … is usually sufficient for protection."); 1 MILGRIM & BENSEN, *supra*, § 1.07A (noting courts will "generally conclude" necessary value element is met so long as secret would require cost, time and effort to duplicate.).

[160] *See, e.g.*, Mattel, Inc. v. MGA Ent., Inc., 782 F. Supp. 2d 911, 972 (C.D. Cal. 2011) ("Independent economic value can be evidenced by 'circumstantial evidence of the resources invested in producing the information.'") (quotation removed).

Court observed, in the early days of the UTSA, sweat work is a "possible element of proof," but does "not support a finding of competitive advantage *unless*…a prospective competitor could not produce a comparable [object] without a similar expenditure of time and money."[161] Worse yet, what if the information was costly to develop for the plaintiff, but in fact the most valuable part of it was in fact generally known in the industry? This goes against the entire premise that secret information is what the law protects.

Some courts assume substantial investment on development necessarily supports economic advantage due to secrecy, because anyone who gets the information from the plaintiff, instead of developing it herself, necessarily saves "substantial development expenses."[162] But the fact that a former employee or the competitor who hires them saves time and money does not show the information imparted an economic advantage from secrecy. It shows, at best, that the defendant may be unjustly enriched. Being unjustly enriched by another's efforts is not the same thing as misappropriating another's trade secret.[163] This assumption is especially curious because unjust enrichment is a common law claim that in many jurisdictions is *preempted* by state trade secret statutes.[164]

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[161] Electro-Craft Corp. v. Controlled Motion, Inc., 332 N.W.2d 890 (Minn. 1983) (emphasis added).

[162] *See id*.; *see also, e.g.,* Source Prod. & Equip. Co. v. Schehr, No. CV 16-17528, 2017 WL 3721543, at *3 (E.D. La. Aug. 29, 2017) ("By misappropriating these technologies, defendants allegedly will be able to compete with plaintiffs without investing the time and resources required to develop the technologies independently. The secrecy of plaintiffs' technologies therefore has independent economic value."). *See also* Slaby et al, *supra*, at 324 ("A trade secret has commercial value if it derives independent economic value from being secret, or if substantial time and money would be required of a competitor to develop the same information…"); Kurt M. Saunders & Nina Golden, *Skill or Secret? – The Line Between Trade Secrets and Employee General Skills and Knowledge*, 15 N.Y.U. J. L. & BUS. 61, 72 (2018) ("In assessing economic value, courts tend to look for evidence of how the information is useful—how much time, labor, or money it saves—and whether these are more than trivial in giving the business a competitive edge.").

[163] Hrdy & Lemley, *supra*, at 38-41.

[164] *See* UTSA, *supra,* § 7 (preempting non-contract claims providing civil remedies for misappropriation of a trade secret); *see also, e.g.,* Hauck Mfg. Co. v. Astec Indus., Inc., 375 F. Supp. 2d 649, 656 (E.D. Tenn. 2004); Yeiser Rsch. & Dev. LLC v. Teknor Apex Co., 281 F. Supp. 3d 1021, 1049 (S.D. Cal. 2017). *See also* Charles Tait Graves & Elizabeth Tippett, *Utsa Preemption and the Public Domain: How Courts Have Overlooked Patent Preemption of State Law Claims Alleging Employee Wrongdoing*, 65 RUTGERS L. REV. 59, 61 (2012).

In sum, it makes little sense to assume information imparts an economic advantage due to secrecy just because it cost the plaintiff time, effort, and money to develop certain information, and another entity might be saved from incurring the same costs.

D. Most Trade Secrets Litigation Involves Information Obtained Lawfully

What if the defendant has also gone out of her way to obtain the information? Doesn't that supply the necessary additional element of proof? Here things get trickier. One common assumption is that the very fact that a defendant in a trade secret case is trying to use or disclose the information supports it must impart economic advantage from secrecy. As one court puts it, in such a case, the defendant's mere desire to obtain the information is itself "circumstantial proof of its value[,]" since "[t]here would be little purpose in using the information if defendants did not believe the information was valuable."[165]

Sometimes this logic works. If the entity accused of trying to access a secret is an outsider—a competitor, an unrelated third party, a foreign entity— this would support the information's perceived economic value. Why else would the defendant have obtained "wrongful knowledge" of the information, actively seeking it out to use? [166] But this is not necessarily true in all or even most trade secret cases. Most trade secret lawsuits are not brought against outsiders who are caught red-handed trying to steal the crown jewels. Most trade secret cases are brought against *insiders*—a company's own employees or business partners—who have obtained the information lawfully through the course of their work or business dealings with the plaintiff. Especially if the defendant is simply a departing employee continuing to use the tools she lawfully acquired in her former job, it is not correct to assume the employee's mere continuing use shows the information does or ever did impart economic advantage due its secrecy.

E. Plaintiffs Have Plentiful External Motivations to Bring Trade Secret Lawsuits

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[165] Surgidev Corp. v. Eye Tech., Inc., 648 F. Supp. 661, 680, 687-692 (D. Minn. 1986), aff'd, 828 F.2d 452 (8th Cir. 1987).

[166] *Id.* ("If the idea of another saves a person who has wrongful knowledge of it time and money, such person has been materially benefited and the information has economic value."). *See also, e.g.*, GlobalTranz Enters. Inc. v. Murphy, No. CV-18-04819-PHX-DWL, 2021 U.S. Dist. LEXIS 58689, *31 (D. Ct. Arizona 2021) "[Plaintiff] GTZ alleges the information's secrecy is valuable…GTZ argues that [defendant] Murphy's 'extreme steps to siphon [the KIK information] to his personal email account' demonstrates the inherent value and usefulness of the information.").

What about the fact that the plaintiff is bothering to bring the lawsuit? A surprisingly common assumption is that plaintiffs will only bring trade secret lawsuits if the asserted information has at least "potential" economic value.[167] However, it is absolutely plausible that plaintiffs would incur the costs of going to court to "protect" information that is not itself valuable enough to justify such costs.

Companies and individuals go to court for all kinds of reasons. There are several obvious motivations for pursing a trade secret lawsuit that have nothing to do with the value of the information per se. One obvious motive is simple enmity. Maybe the plaintiff is angry that the defendant used or disclosed certain information in breach of a duty of confidentiality. Another plausible motive is a desire to deter competition. Maybe the plaintiff is using the lawsuit for strategic reasons to push a competitor out of the same market space or to deter a future competitor from entering.[168] In a different vein, perhaps the plaintiff is an employer who is suing a departing "star employee" for the sole purpose of preventing them from leaving. An obvious way to do that is to threaten, or bring, a trade secret lawsuit. [169] Lastly, perhaps the plaintiff just does not want the information to get out due to the potential harm to its reputation upon disclosure.[170]

All of these are plausible motives to sue and not necessarily illogical ones. However, none of these proves or even necessarily supports that information derives economic value from secrecy under the law.

III. An Emerging Trend in the Courts

The conventional wisdom has been that courts do not usually scrutinize a plaintiff's assertions of independent economic value.[171] Recently, however, since passage of the DTSA,

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[167] *See* Johnson, *supra*, at 557; QUINTO & SINGER, *supra*, at 103.

[168] Sharon K. Sandeen & Elizabeth A. Rowe, *Debating Employee Non-Competes and Trade Secrets*, 33 Santa Clara Computer & High Tech. L.J. 438 (2017) (debating the view that non-competition agreements and related legal restraints are anti-competitive).

[169] Elizabeth A. Rowe, *When Trade Secrets Become Shackles: Fairness and the Inevitable Disclosure Doctrine*, 7 TUL. J. TECH. & INTELL. PROP. 167 (2005).

[170] *See* Graves & Katyal, *supra*, at 1404 (discussing seclusion for purpose of avoiding reputational harm).

[171] *See* text and accompanying notes *supra*.

trade secret practitioners have observed more instances of courts dismissing trade secret cases for failure to satisfy independent economic value.[172] This part reviews recent DTSA cases from a variety of jurisdictions in which independent economic value appeared to be dispositive in the court's decision to dismiss or deny a motion for an injunction. This review suggests that some courts are indeed taking independent economic value more seriously, refusing to accept assertions of independent economic value based on the usual circumstantial evidence.

What is more, courts are doing this even in the very early stages of litigation. For a variety of reasons, most trade secret cases focus exclusively on pretrial relief; the cases rarely go to trial.[173] The typical procedural posture is usually an order on the plaintiff's motion for preliminary injunction or an order on the defendant's motion to dismiss for failure to state a claim.[174] As a result, courts are typically hesitant to force plaintiffs to expose the full details of their secrets before a protective order is in place.[175] This makes these recent opinions, many of which dismissed *with prejudice*, all the more significant.

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[172] For example, trade secrets expert Victoria Cundiff writes, in a 2019 Practicing Law Institute report, that "[t]he UTSA and DTSA's requirement that information claimed to be a trade secret must have independent economic value (actual or potential) is often overlooked[,] [but] the past year has brought renewed attention to this prong." Cundiff, *supra*, at 73. *See also* ROWE & SANDEEN, *supra*, at 177 (stating, without citing to specific case examples, that "numerous courts have considered Motions to Dismiss in which it was asserted that the economic value requirement was not properly pleaded."). A 2020 "Law 360" article proclaims that independent economic value is "crucial" in trade secret cases. Robert Manley, Phillip Aurentz, & Kevin McElroy and John Bone, *Independent Economic Value Crucial In Trade Secret Cases*, LAW 360, June 23, 2020, 5:20 PM EDT (citing Plastronics Socket Partners Ltd. v. Highrel Inc. 2019 U.S. Dist. LEXIS 78569 at *10-11 (D. Ariz., May 9, 2019); Yield Dynamics, Inc. v. TEA Systems Corp., 2007 Cal. App. LEXIS 1399 at *35 (Call. App. 2007)).

[173] *See The Sedona Conference, Commentary on Equitable Remedies in Trade Secret Litigation*, Public Comment Version (May 2021), available at https://thesedonaconference.org/publication/Commentary_on_Equitable_Remedies_in_Trade_Secret_Litigation *See also* Elizabeth Rowe, *eBay, Permanent Injunctions, and Trade Secrets*, 77 WASH. & LEE L. REV. 553 (2020).

[174] *See* FED. R. CIV. P. 65 (a) (preliminary injunction), (b) (temporary restraining order). *See also* Fed. R. Civ. P. 12(b)(6) (a party may assert a motion to dismiss for "failure to state a claim upon which relief can be granted.").

[175] For examples of courts expressing concern about forcing disclosure of secrets during litigation, *see, e.g.*, Mighty Deer Lick, Inc. v. Morton Salt, Inc., 2020 U.S. Dist. LEXIS 23206, *12-14, 2020 WL 635904 (U.S. D. Ct. N. D. Ill. 2020); Copart, Inc. v. Sparta

A. The Turning Point

Before moving to the DTSA, it is important to mention a very significant pre-DTSA case called *Yield Dynamics, Inc. v. TEA Systems Corporation*.[176] Several practitioners cite *Yield* as representing a turning point for independent economic value.[177] The plaintiff, Yield, was a software company alleging its former employee misappropriated eight segments of source code he had developed while employed at Yield.[178] Upon departure, the former employee used the eight code routines to make a competing product at his new company, TEA.[179] Yield sued for misappropriation under the California UTSA, but lost after a bench trial due to its failure to prove independent economic value.[180] On appeal, Yield conceded that the eight secret code routines did not involve "any new or innovative advances in software programming," and that much of the code came from public sources.[181] Yield nonetheless argued the secret aspects of the code were valuable because they "would provide 'some help' and 'save time' for a programmer" wanting to achieve similar functionality; that was presumably why the departing employee continued to use it.[182]

However, in a lengthy opinion, a California appeals court held for the defendant. Merely stating that something is "helpful or useful" or might "save time," the court wrote, was not

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Consulting, Inc., 277 F. Supp. 3d 1127, 1153-1155 (E.D. Cal. 2017); Design Nine, Inc. v. Arch Rail Grp., LLC, 2019 U.S. Dist. LEXIS 49079, *12, 2019 U.S.P.Q.2D (BNA) 102696, 2019 WL 1326677 (E.D. Missouri 2019).

[176] *Yield Dynamics, Inc.*, 154 Cal. App. 4th at 547.

[177] *See* Robert B. Milligan, "Recent California Appellate Decision Finds That Company Failed To Demonstrate That Its Source Code Had Independent Economic Value," November 29, 2007, https://www.tradesecretslaw.com/2007/11/articles/trade-secrets/recent-california-appellate-decision-finds-that-company-failed-to-demonstrate-that-its-source-code-had-independent-economic-value/ (Last visited July 1, 2021); Manley et al, *supra*, at 1 (citing *Yield* as an example of value being "crucial" in trade secret cases).

[178] *Yield Dynamics, Inc.*, 154 Cal. App. 4th at 552-553.

[179] *Id*. at 552-554.

[180] *Id.*

[181] *Id*. at 562, 566, n. 15.

[182] *Id*. at 564-568.

enough to prove that Yield derived an economic advantage due to retaining the secrecy of those eight secret code routines. The court rejected the usual circumstantial evidence. For example, the court noted that the fact that Yield kept all the code secret did not prove that the *secret* parts of the code derived independent economic value from secrecy.

> Yield's protection of its code from general disclosure could hardly show that the eight routines at issue possessed independent economic value…Apparently it kept *all* of its code confidential, even though some of it came from outside sources, including public ones. … A decision to view information as confidential thus reflects at most an *opinion* that secrecy *may* be advantageous.[183]

The holding in *Yield* was surprising to practitioners, who viewed it as moving beyond what other courts had indicated independent economic value required under the UTSA. As Roger Milligan put it, *Yield* adds "an additional wrinkle" by emphasizing that "[s]ecrecy and usefulness alone will not establish independent economic value."[184] Instead, *Yield's* heightened standard meant a plaintiff would have to show the claimed information gave it an economic advantage precisely because it was kept secret and that the asserted economic value of the information came specifically from its secret aspects.

B. Skepticism in Federal Courts Applying the DTSA

Since passage of the DTSA in 2016, several federal district courts have followed the approach in *Yield* in the pre-trial stage of litigation, dismissing cases or denying motions for preliminary injunctions when plaintiffs fail to plead or sufficiently support economic advantage due to secrecy.[185] This section discusses these cases. They are divided into four categories, based on the reason the court gave for why independent economic value was not satisfied.

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[183] *Id*. at 566-567 (emphases in original).

[184] Milligan, *supra*, at 1.

[185] Ukrainian Future Credit Union v. Seikaly, 2017 U.S. Dist. LEXIS 194165, *25, 2017 WL 5665960 (E.D. Mich. 2017) (applying motion to dismiss standard and denying plaintiff's motion to add a DTSA claim); *Elsevier Inc*., 2018 U.S. Dist. LEXIS 10730 at *10-11 (granting motion to dismiss); *Democratic National Committee*, 392 F. Supp. 3d at 448 (granting motion to dismiss); Signal Fin. Holdings LLC v. Looking Glass Fin. LLC, 2018 U.S. Dist. LEXIS 15106, *16, 2018 WL 636769 (D.Ct. Il. 2018) (limiting scope of preliminary injunction to exclude draft agreements); Plastronics Socket Partners Ltd. v. Highrel Inc., 2019 U.S. Dist. LEXIS 78569, *14, 2019 WL 2054362, at *5 (U.S. D.Ct. Arizona 2019) (granting motion to dismiss with leave to amend); ATS Grp., LLC v. Legacy Tank & Indus. Servs. LLC, 407 F. Supp. 3d 1186, 1198, 2019 U.S. Dist. LEXIS 138657, *22

1. No Plausible Assertion of Economic Advantage From Secrecy – In the first category of DTSA cases, courts found plaintiffs failed to provide plausible evidence, or at least a plausible story, for how their information provided economic advantage from secrecy. The plaintiffs in these cases were instead relying merely on the fact that they took reasonable measures to keep the information secret.[186]

For example, in *ATS Grp., LLC v. Legacy Tank & Indus. Servs. LLC*, a U.S. District Court in the Western District of Oklahoma dismissed a DTSA claim for failure to demonstrate independent economic value.[187] The alleged trade secrets ran the gamut from information about "ongoing or prospective jobs" to "pricing and profit margins," to "software, processes and procedures" to "customer names[.]"[188] The court found the plaintiff ATS sufficiently pled that it took reasonable measures to maintain secrecy,[189] but stated that maintaining secrecy alone was

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(W. D. Okla. 2019) (granting motion to dismiss with leave to amend); Abrasic 90 Inc. v. Weldcote Metals, Inc., 364 F. Supp. 3d 888, 898, 2019 U.S. Dist. LEXIS 34329, *22 (D.Ct. Ill 2019) (denying motion for preliminary injunction); Kairam v. West Side GI, LLC, 793 Fed. Appx. 23, 28 (2d. Cir. 2019) (holding district court properly dismissed but should have granted leave to amend); Danaher Corp. v. Gardner Denver, Inc., 2020 U.S. Dist. LEXIS 89674, *45 (U.S. D. Ct. E.D. Wis. 2020) (granting motion to dismiss); Intrepid Fin. Partners, LLC v. Fernandez, 2020 U.S. Dist. LEXIS 244742, *12-13, 2020 WL 7774478 (SDNY 2020) (granting motion to dismiss); Attia v. Google LLC, 983 F.3d 420, 425-426 (9th Cir. 2020) (affirming grant of motion to dismiss); Payward, Inc. v. Runyon, 2020 U.S. Dist. LEXIS 173907, *6 (N. D. Cal. 2020) (granting motion to dismiss with leave to amend); Zirvi v. Flatley, 433 F. Supp. 3d 448, 465 (S.D.N.Y. 2020) (granting motion to dismiss); NEXT Payment Sols., Inc. v. CLEAResult Consulting, Inc., 2020 U.S. Dist. LEXIS 94764, *31-32 (N.D. Ill. 2020) (granting summary judgment); 24 Seven, LLC v. Martinez, 2021 U.S. Dist. LEXIS 15480, *4, 2021 WL 276654 (SDNY 2021) (granting motion to dismiss); Sirius Computer Solutions, Inc. v. Sachs, 2021 U.S. Dist. LEXIS 77595, *10-11 (U.S. D. Ct. N. D. Ill. 2021) (granting motion to dismiss).

[186] *See, e.g., Elsevier Inc., LLC*, 2018 U.S. Dist. LEXIS 10730 at *17-18 (dismissing New York and DTSA claims, writing that "the only factor under New York law that [counter plaintiff] does address is the third—the extent of measures taken to safeguard the information….Taking steps to protect information through a confidentiality agreement does not, on its own, suggest the existence of a bona fide trade secrets.").

[187] As is common in these DTSA cases, plaintiff also brought a state law claim under the state's version of the UTSA. *ATS*, 407 F. Supp. 3d at 1198.

[188] *Id*. at 1200.

[189] The court found the plaintiff's provision of confidentiality policies in the employee handbook, as well as its use of password protection and restrictions on access, were sufficient to satisfy reasonable efforts to maintain secrecy. *ATS Grp., LLC*., 407 F. Supp. 3d at 1199.

not enough. Plaintiff completely failed to allege that the information it had "designated" as trade secrets derived " 'independent economic value' from remaining confidential" or "provided it with a competitive advantage."[190] Thus, the court dismissed the complaint, though gave the plaintiff leave to amend.[191] The plaintiff thereafter filed an Amended Complaint, in which it took pains to explain how its information gave it a competitive advantage, using the words "competitive advantage" at least ten times.[192]

2. Economic Value Not Specifically From Secrecy - A second line of DTSA cases reveals courts fleshing out the most subtle feature of independent economic value: the requirement of a causal connection between value and secrecy. Courts chastened plaintiffs who failed to explain precisely how the value they identified came from the information's secrecy. Merely asserting that information had "value" in a holistic sense, or that others would save time and money if they got it, was not sufficient.[193]

For example, in *Danaher Corp. v. Gardner Denver, Inc*., the plaintiff asserted trade secrets in a "Growth Room Template" that was essentially an internal "teaching document" used by employees to conduct "a growth-focused meeting."[194] A district court in the Eastern District of Wisconsin denied a preliminary injunction and granted defendant's motion to dismiss because the plaintiff failed to explain how the Growth Room Template derived economic value due to its secrecy.[195] The Growth Room Template was kept generally secret within the company, and it was valuable in a holistic sense, because it helped "guide development meetings" and enabled the "organization to operate in a consistent fashion."[196] But the plaintiff failed to identify

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[190] *Id*. at 1200.

[191] *Id.* at 1198 (dismissing with leave to amend).

[192] Amended Complaint in *ATS*, 2019 WL 6178620 (Oct. 10, 2019).

[193] *See, e.g.*, *Signal Fin. Holdings LLC*, 2018 U.S. Dist. LEXIS 15106, at *5-6, *16 (rejecting plaintiff's argument that draft employee agreements had "independent economic value" because they could "serve as templates for future agreements, thereby saving it legal fees"; the asserted value, saved costs of development, did not derive from secrecy and in fact would have existed "even if the documents were public.").

[194] *Danaher Corp.*, 2020 U.S. Dist. LEXIS 89674, at *26-27.

[195] *Id.* at *45, 30-31.

[196] *Id.* at *30.

anything specific about the Growth Room Template that derived value from its secrecy.[197] The Template's value, the court wrote, does not lie "in its secrecy from others," but only in what it represents for the plaintiff's own employees—"an ability to conduct a growth and development meeting effectively."[198] "Certainly, a well-run growth and development department will impart value to its company—that is the entire point. But simply because information is valuable does not mean that it is a trade secret."[199] The court permanently dismissed the plaintiff's claim without leave to amend. [200]

3. Mere Threat of Harm Upon Disclosure Not Enough – In another line of DTSA cases, courts found plaintiffs' allegations of independent economic value were insufficient because plaintiffs asserted merely that disclosure would be harmful to them without explaining how the information gave them a competitive advantage over others. For example, in *Democratic National Committee v. Russian Federation*. In this high-profile case, the Democratic National Committee (DNC) filed a lawsuit alleging, among other things, that the Russian Federation violated the DTSA by obtaining trade secrets from the DNC's computers and leaked those secrets to WikiLeaks.[201] The complaint described the DNC's alleged trade secrets as consisting of "donor lists" and "fundraising strategies."[202]

The DNC's claim was not frivolous. As noted above, nonprofit entities have successfully protected their donor lists as trade secrets.[203] But a district court in the Southern District of New York dismissed without leave to amend,[204] holding the DNC had not identified anything economically valuable about its donor lists or fundraising strategies, or "shown how their particular value derive[d] from their secrecy."[205] Instead, the DNC alleged only that disclosure

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[197] *Id*. at *30-31 ("Danaher has not alleged facts to support the requirement that the Growth Room Template's value is derived from the information's secrecy[.]").

[198] *Id.* at *30-31.

[199] *Id.* at *31.

[200] *Id.* at *45.

[201] Democratic Nat'l Comm. v. Russian Fed'n, 392 F. Supp. 3d 410, 417-419 (U.S. D. Ct. S.D.N.Y. 2018).

[202] *Id*. at 436, 447.

[203] *See* notes *supra* and accompanying text.

[204] *Democratic Nat'l Comm*., 392 F. Supp. 3d at 451 (dismissing with prejudice).

[205] *Id.* at 448.

of this information would be bad, because it "would reveal critical insights into the DNC's political, financial, and voter engagement strategies."[206] Merely asserting that disclosure would somehow be harmful to the DNC, the court's dismissal suggested, was not the same as explaining how it gave the DNC an economic advantage over other entities.[207]

A court made a similar determination in *Ukrainian Future Credit Union v. Seikaly*, holding that merely asserting negative "regulatory consequences" due to disclosure of certain customer information did not prove the information afforded plaintiff "a competitive advantage by having value to the owner and potential competitors."[208] The plaintiff said a lot about wanting the information to remain confidential and the negative consequences of disclosure, but it said "nothing about the economic value of the information to a competitor or anyone else."[209]

4. Undeveloped Ideas and Stale Information – In a final line of DTSA cases, courts suggested that independent economic value from secrecy, while it might exist at some point in time, was not present during the correct timeframe. Either the requisite value did not *yet* exist or it had long since expired.

For example, in *Pawelko v. Hasbro, Inc*., the plaintiff argued Hasbro misappropriated her idea submission to develop two new play doh product lines, "Play Doh Plus" and "DohVinci."[210] Hasbro argued plaintiff's product ideas lacked even "potential" independent economic value because they were not sufficiently developed and had not been deemed safe and approved for kids.[211] The court denied Hasbro's motion for summary judgment, stating that "independent economic value...does not require that the designs be completely refined, developed, and manufactured.'"[212] However, the court observed that at trial the plaintiff might

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[206] *Id*. at 436, 447.

[207] *Id*.

[208] *Ukrainian Future Credit Union*, 2017 U.S. Dist. LEXIS 194165 at *24-25.

[209] *Id.*

[210] Pawelko v. Hasbro, Inc., 2018 U.S. Dist. LEXIS 196741, *1-5 2018 WL 6050618 (D. Ct. Rhode Island, 2018).

[211] *Id.* at *12.

[212] *Id*. at *11-13 (citing, e.g., *Learning Curve Toys, Inc*., discussed *infra*).

face a challenge in proving her idea submission was sufficiently developed to satisfy independent economic value.[213]

In another case, the opposite timing problem arose. A court found the asserted trade secrets, although they may have been valuable in the past, had since become outdated. In *24 Seven, LLC v. Martinez*, Plaintiff alleged to own a compilation trade secret, consisting of "client names, candidate names, client contacts, revenues by client, and commission amounts."[214] Plaintiff alleged it worked hard to develop the information but failed to explain how the information retained "economic value … vis-à-vis its competitors[,]" given that significant time had passed. In all probability, the court wrote, "the economic edge that 24 Seven's reports would give competitors is marginal and would dissipate with the age of the report[.]"[215] In the end, the court dismissed the plaintiff's claim without leave to amend.[216]

IV. A Typology of Value Failures

A purely descriptive account is useful for those wishing to know how courts actually behave "on the ground." It also begs for order and further analysis. This part draws on the case law, as well as insights from the broader intellectual property law field, to provide a framework for conceptualizing independent economic value that can be used to identify, categorize, and evaluate "value failures" that may arise in future. Value failures occur along four dimensions—amount, causation, type, and timing. One or more of these value failures can arise in virtually any trade secret case. Each category brings its own policy concerns. This part explains the four value failures, identifies the associated policy concerns, and shows how this legal requirement, if properly applied, can prevent them.

A. Amount Failures

[213] *Id*. at *18-19.

[214] 24 Seven, LLC v. Martinez, 2021 U.S. Dist. LEXIS 15480, *4, 2021 WL 276654 (SDNY 2021).

[215] *Id.* at *28.

[216] The court granted leave to re-file state law claims in state court. *Id. Compare Vendavo, Inc. v. Long*, 397 F.Supp.3d 1115, 1133 (2020) (holding some information satisfied independent economic value but that information older than three years did not).

Independent economic value generates a minimum quantitative threshold for the value that information must have in order to be a trade secret. An "amount failure" occurs when a putative trade secret simply does not pass this minimum threshold. The threshold is not particularly high. Both federal and state statutes specifically refer to "potential" independent economic value, suggesting they contemplate information with modest present value.[217] The Third Restatement's oft-cited commentary counsels that the value "need not be great. It is sufficient if the secret provides an advantage that is more than trivial."[218] At a practical level, courts have not generally required the trade secret owner to "provide a formal valuation of the trade secret or identify revenues associated with the trade secret."[219]

A low threshold for value makes sense. The conventional view of value in intellectual property law is that markets, not government, should determine the merit of inventions and creative works and the direction of technology development.[220] On this view, the value of a trade secret should be evaluated primarily based on industry's perceptions of value, not that of courts or government officials.[221]

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[217] 18 U.S.C. § 1839(3); UTSA, *supra*, § 1.

[218] RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39, cmt. (e) (1995). *See also, e.g.*, Smithfield Packaged Meats Sales Corp. v. Dietz & Watson, Inc., 452 F. Supp. 3d 843, 856 (S.D. Iowa 2020).

[219] 1 MILGRIM & BENSEN, *supra*, § 1.07A. *But see* HALLIGAN AND WEYAND, *supra*, at 122-127 (noting valuation can be required to obtain damages and is a good business practice).

[220] For patents, see Merges, *IP in Higher Life Forms*, 47 MD. L. REV. 1051 (1988) (suggesting limited role for patent office in assessing utility of technology); Seymore, *supra*, at 1076 (arguing that judging the utility of inventions requires a "subjective and arbitrary value judgment" as to when or whether an invention is useful enough to count under the law); Risch, *supra*, at 1205-1206 (explaining why a "commercial utility" standard might be difficult to administer). For similar views on the "originality" requirement in copyright, *see, e.g.*, Bleistein v. Donaldson Lithographing Co., 188 U.S. 239, 251, 23 S. Ct. 298, 300, 47 L. Ed. 460 (1903) ("It would be a dangerous undertaking for persons trained only to the law to constitute themselves final judges of the worth of pictorial illustrations, outside of the narrowest and most obvious limits."); *see also* Joseph Scott Miller, *Hoisting Originality*, 31 CARDOZO L. REV. 451, 456 (2009); Joseph P. Fishman, *Originality's Other Path*, 109 CAL. L. REV. 861, 863 (2021).

[221] *But see* Amy Kapczynski, *The Cost of Price: Why and How to Get Beyond Intellectual Property Internalism*, 59 UCLA L. REV. 970 (2012) (critiquing assumption that difficulty of aggregating information in private markets make it impossible for government to effectively incent innovation); *see also* Daniel J. Hemel & Lisa Larrimore Ouellette, *Beyond the Patents-Prizes Debate*, 92 TEX. L. REV. 303 (2013); Camilla A. Hrdy, *Commercialization Awards*, 2015 WIS. L. REV. 13, 67 (2015).

However, a low standard is not the same as no standard; and there must be a standard. There are infinite secret tidbits that could theoretically serve as the basis for a trade secret lawsuit. For example, in one case, a boating company sued a competitor started by a former employee based on a secret consisting of, inter alia, the fact that the former employer gave a volume discount.[222] Such claims can come from the other direction too (although this is far, far less common), with employees suing based on work their employer continued to use after they left. In one DTSA case, a former employee, who was bringing an Equal Pay Act claim, alleged that her employer had misappropriated her "billing template," which she had used to optimize billing procedures in her former job.[223]

Some of these claims may involve information that is moderately valuable; but many will not justify a response from the law. As Judge Richard Posner once observed, the law's "machinery is far from costless," and should be reserved for trade secrets with "real value deserving of legal protection."[224] We may postulate that cost-benefit analysis will necessarily screen out low-value secrets, for who would protect, let alone sue based on, information that lacks value?[225] Judge Posner's assumption, in making the statement above, was that "the owner's precautions" serve as "evidence that the secret has real value."[226] However, as explained above, this inference is dubious. Secrecy need not be costly or narrowly tailored to what is of value. There are plentiful scenarios where plaintiffs would be well-served by using virtually value-less information as the basis for a lawsuit. Perhaps a star employee is trying to depart, and the employer does not want them to leave for reasons unrelated to trade secrets.[227] Perhaps a former

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[222] Yellowfin Yachts, Inc. v. Barker Boatworks, LLC, 898 F.3d 1279, 1298 (11th Cir. 2018) (affirming district court's grant of summary judgment finding information about a volume discount lacked independent economic value).

[223] *Kairam*, 793 Fed. Appx. at 28 (holding claim was properly dismissed for lack of value and reasonable measures, with leave to amend).

[224] *Rockwell*, 925 F.2d at 179.

[225] *See* Kitch, *supra*, at 697-98; Cundiff, *supra*, at 73.

[226] *Rockwell*, 925 F.2d at 179.

[227] *See* Camilla A. Hrdy, *The General Knowledge, Skill, and Experience Paradox*, 60 BOSTON COLLEGE L. REV 2409, 2409-2412 (2019).

business partner is now directly competing for the same contract. A devious but rational solution is to identify information to which they had lawful access and bring a trade secret lawsuit.[228]

This is why courts must be free to use independent economic value to screen for amount failures. If there were no quantitative standard for value at all, then many of these shenanigans would be *legal*, and courts would be left dealing with the fall-out.[229] Courts can use the "plausibility" pleading standard to dismiss baseless claims.[230] But without independent economic value, there would be nothing for courts to object to; they would have to rely purely on secrecy, reasonable secrecy precautions, and cost-benefit analysis by plaintiffs to control what is protectable. Thanks to independent economic value, courts can and should dismiss for failure to state a claim when the asserted trade secret is not valuable enough to justify legal protection.

B. Causation Failures

The second, far more subtle feature of trade secret independent economic value is that it contains an implicit causation requirement. The information's asserted value must derive specifically from its secrecy. When that is not the case, the information does not have independent economic value from secrecy, as the statute requires. This is a "causation failure."

The causation failure is based on the statutory mandate that a trade secret's asserted economic value must come "independently" from the fact that information is being kept secret. If the same economic value would accrue absent secrecy, then the information is not a trade secret.[231] To give an obvious example, if the alleged trade secret is the information making up the chemical composition for a drug that treats cancer, then the economic value of that drug composition must be causally linked to what is secret about it. If most of the composition of the drug is already well known in the industry, and the only thing that is secret about the drug is an

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[228] Gemini Aluminum Corp. v. California Custom Shapes, Inc., 95 Cal. App. 4th 1249, 1263, 116 Cal. Rptr. 2d 358, 369 (2002) (holding trade secret claim against rival for a contract to build a workbench was frivolous, in part because the alleged trade secret consisted of the identity of the contract, which was known to all).

[229] *See* David S. Levine and Sharon K. Sandeen, *Here Come the Trade Secret Trolls*, 71 WASH. & LEE L. REV. ONLINE 230, 244 (2015) (arguing that stronger trade secret laws run the risk of trade secret claims being used as "anti-competitive weapons").

[230] *See* note *supra*.

[231] *Signal Fin. Holdings LLC*, 2018 U.S. Dist. LEXIS 15106, at *16, discussed *supra*.

alteration or addition, it must be the case that the secret alteration or addition, in specific, gives the holder an economic advantage over others due to being kept secret from others.

The requirement of a causal connection between value and secrecy raises the bar on what can be protected, and for good reason. Not only can information that is non-secret not be protected as a trade secret, but secret information whose value does not stem from secrecy cannot be a trade secret. The policy significance of this rule is akin to the policy behind the secrecy requirement itself. Requiring value to come from secrecy, as opposed to from what is publicly known is critical to ensuring that trade secret law does not needlessly interfere with "robust competition or with the dissemination of new ideas."[232] The practical significance of this rule is to ensure that remedial assistance from a court in the form of an injunction will *actually help* the complaining party. If the information is not valuable due specifically to its secrecy, then an injunction to preserve the information's secrecy does not help protect that value. This is why the Supreme Court once stated that the "economic value" of the trade secret "property right" lies in the "competitive advantage over others" that the holder enjoys by virtue of retaining exclusivity, such that "*disclosure or use by others would destroy that competitive edge.*"[233] Value must come from secrecy, and disclosure must threaten to destroy both secrecy and value. If this linkage is not enforced, trade secret law serves a distinct purpose from protecting the value that lies in secrecy. At best, it serves only to prevent another from benefiting from the plaintiff's investments ("unjust enrichment"); at worst, it serves ulterior motives—restricting competition, restricting mobility, restricting speech, or mere enmity—that have nothing to do with protecting value.

The most powerful illustration of a causation failure in practice is the *Yield Dynamics* case, discussed in Part III, where the court held, after a trial, that the plaintiff's source code lacked independent economic value. The functionality obtained by the code, and thus the basis for its economic value, did not derive from the code's secret parts. Instead, it came from the code's public, open-source parts.[234] Yield asserted that the lines of code had value because "they

[232] Lemley, *The Surprising Virtues of Treating Trade Secrets as IP Right*s, *supra*, at 343.

[233] *See* Ruckelshaus v. Monsanto Co., 467 U.S. 986, 1012 (1984) (emphasis added).

[234] *Yield Dynamics, Inc*., 154 Cal. App. 4th at 564–565, 561, n. 13.

help achieve a function and save programmers time."[235] But unless there was a causal link between the economic advantage of the code and the secret parts of the code, the mere fact that the former employee benefitted from continuing to use the code was not enough.

Unfortunately, many courts do not take this extra step in assessing economic value. To give a typical example, in *Luckyshot LLC v. Runnit CNC Shop, Inc*., a district court in the District of Colorado found a design for a toilet plunger "unquestionably" possessed independent economic value under the DTSA because the "proprietary plunger design 'enabled [plaintiff] to market those plungers ... to customers … for substantial amounts[,]" and plaintiff had "generated over $1.3 million in revenue from" one of its customers over two years.[236] The issue should have been more specific: Did the *secret aspects* of the plaintiff's plunger design permit the plaintiff to market the plunger for "substantial amounts" and help generate the stated revenues? In other words: Did the plunger have *value from secrecy*? If the plunger design was valuable due to other factors besides secrecy—such as the generally known part of the design, or the unprotectable skill, knowledge, and experience of the plaintiff's employees,[237] or the marketing provided by plaintiff's brand—then the plunger design did not derive independent economic value. It was not a trade secret. There are plentiful other cases revealing similar oversights. Particularly at the pleading stage, courts do not typically require the plaintiff to directly link the economic value in question to what is actually secret.[238] If courts begin to take this causation requirement more

[235] *Id.* at 547.

[236] Luckyshot LLC v. Runnit CNC Shop, Inc., No. 19-CV-03034-RBJ, 2020 WL 5702281, at *4 (D. Colo. Sept. 24, 2020).

[237] *See* citations in note 123 *supra*.

[238] Indeed, in an ongoing case, *Amimon Inc. et al v. Shenzen Hollywood Tech. Co. Ltd*., a district court recently implied that these issues did not matter. Rejecting the defendant's argument that plaintiff, Amimon, had not alleged that its source code imparted "any economic value to [plaintiffs] or their competitors," the court wrote that plaintiff's allegations that it is "a leader of the video transmission industry" and "spends 5 to 10 million dollars annually to research and develop new technologies[]" were sufficient. *See* Amimon Inc. et al v. Shenzen Hollywood Tech. Co. Ltd., No. 20 CIV. 9170 (ER), 2021 WL 5605258, at *11 (S.D.N.Y. Nov. 30, 2021) ("Although Amimon has failed to allege specifically how much it spent on the Source Code in question, or the current value of the Source Code, in light of the other information provided, Amimon has alleged sufficient facts to plausibly assert that the Source Code is a trade secret."). Spending on R&D and being an industry leader do not show or even necessarily support that the specific software code in question derives economic value from secrecy.

seriously, as the *Yield* court did and as some DTSA courts are doing, the implications for trade secret litigation and enforcement could be significant.

The causation issue concededly does not arise all the time. Some trade secrets are entirely secret or secret in all material respects. There will be no question that the asserted value derives from secrecy. But causation failures probably arise far more often than one might assume. Many trade secrets are made up of a combination of both public and non-public information or consist of a minor divergence from what is already known.[239] Within the field of software, for example, a lot of source code incorporates open-source code.[240] This code should only be protectable to the extent the secret part of the code imparts an economic advantage. Similarly, data compilations often consist of private and public data. Courts often observe that "compilations" are specifically contemplated in the statutory text as potentially protectable trade secrets.[241] However, compilations of non-secret and secret information are only protectable to the extent the secret aspects of the data, or some unknown combination of all the data, provides economic advantage due to secrecy.[242] If ninety-nine percent of the data in the compilation is public, and the secret aspects impart only trivial additional value, then the compilation as a whole may well not derive more-than-trivial economic value due to secrecy.

The causation issue can also arise in virtually all cases involving minor alterations on commonly sold products or general industry knowledge.[243] For example, in the now-infamous

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[239] ROWE & SANDEEN, *supra*, at 92. *See also* Charles Tait Graves & Alexander Macgillivray, *Combination Trade Secrets and the Logic of Intellectual Property*, 20 SANTA CLARA COMPUTER & HIGH TECH. L.J. 261 (2004) (critiquing trade secret protection for combination trade secrets).

[240] *See* Katyal, *supra*, at 1252.

[241] § 1839(3)(B); UTSA, § 1.

[242] *See, e.g.*, WHIC LLC v. NextGen Labs., Inc., 341 F. Supp. 3d 1147, 1163, 2018 U.S. Dist. LEXIS 158380, *34, 2018 WL 4441214 (D.Ct. Hawaii, 2018); Intel Corp. v. Rais, 2019 U.S. Dist. LEXIS 4932, *10, 2019 WL 164958 (W.D. Tex. 2019).

[243] *Compare* Kendall Holdings, Ltd. v. Eden Cryogenics LLC, 630 F. Supp. 2d 853, 863–64 (S.D. Ohio 2008) (holding "shop drawings" for "cryogenic bayonets" did not "create independent economic benefit to Plaintiff by not being known or disclosed to other cryogenics competitors," because they were indistinguishable from "standardized, non-novel products widely produced by cryogenics manufacturers.") *with* Sexual MD Sols., LLC v. Wolff, No. 20-20824-CIV, 2020 WL 2197868, at *15 (S.D. Fla. May 6, 2020) (holding that, although techniques for marketing a sexual wellness product were based in part on "publicly available,

Waymo v. Uber case, plaintiff Waymo's former employee downloaded more than 14,000 files containing designs for autonomous vehicles before he left to work for defendant, Uber. But the information contained in those files was not all secret. Much of it likely consisted of alterations upon what engineers already knew about self-driving cars.[244] If the case had not settled, Waymo would have had to prove the specific secrets in those 14,000 files—which the judge had narrowed to *eight* by the time of trial—imparted actual or potential economic advantage over others.[245]

Recent DTSA cases have dismissed due to plaintiffs' failure to allege value due specifically to secrecy.[246] More courts should identify these causation failures and urge the parties to address them as soon as possible. If the case does end up going to trial, then it will be up to the plaintiff to prove whether the asserted economic value really comes from secrecy. [247]

C. Type Failures

The third function of independent economic value is to constrain the *type* of value that can be protected as a trade secret. Unlike patent law, which does not mandate that an invention have any commercial merit to be protectable,[248] trade secret law demands that information have, specifically, "economic" value.[249] Information whose value is not sufficiently "economic" in nature cannot be protected as a trade secret, no matter how great its perceived value might be. This is a "type failure."

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third-party sources," plaintiff's "enhancements to the marketing principles found in third-party sources added economic value" as evidenced by fact that plaintiff spent "considerable time and money" in developing its marketing plan).

[244] *See* Hrdy, *The General Knowledge, Skill, and Experience Paradox, supra*, at 2412-2413.

[245] Uber was apparently preparing to challenge this point. *See* Defendants Uber Technologies, Inc. and Ottomotto LLC's Opposition to Lyft Inc.'s Motion to Quash Subpoena, Waymo LLC v. Uber Tech. Inc. et al., 2017 WL 4174067 (N.D. Cal. 2017)

[246] *See, e.g., Danaher Corp*., 2020 U.S. Dist. LEXIS 89674, at *26-27 (growth template used internally to run meetings did not derive value from secrecy).

[247] *Yield Dynamics, Inc*., 154 Cal. App. 4th at 560-565.

[248] *C.f.* Risch, *Reinventing Usefulness, supra*, at 1195, 1204.

[249] *See* notes *supra* and accompanying text.

The fact that trade secrecy looks to commercial value versus technical merit is usually framed as an expansion of protectable subject matter. Trade secret law, as compared to patent law, permits mere business and market information like customer lists and business strategies, thus rewarding and incentivizing all sorts of research and experimentation beyond what occurs in a science lab and that might result in a patentable invention.[250] However, trade secret law's insistence on the "economic" type of value is as much a limitation as an expansion of the right. The statutory concept of "economic" value sweeps broadly but does not encompass all conceivable human pursuits. If someone is engaging in purely non-economic activities which do not have any economic purpose or impact on the economy, this is not a trade secret.[251] Examples range from baking cookies for one's family using a secret recipe to writing a wedding speech that isn't revealed until the big night.[252] Neither the recipe nor the wedding speech are trade secrets under the law. No matter how much value they have to the owner, their value is not "economic" in nature. Even if the baker or the speech-writer share their secrets with others under a strict duty of secrecy, which is thereafter shattered, there is no cause of action under state or federal trade secret law. When this sort of pure type failure occurs, a court must dismiss a trade secret claim due to lack of independent economic value.[253]

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[250] *See* Kewanee v Bicron, 416 U.S. 470, 485-493 (1974). *See also, e.g.,* Michael Abramowicz & John Duffy, *Intellectual Property For Market Experimentation*, 83 N.Y.U. L. REV. 337, 390-391 (2007) (arguing trade secrets rightly protect so-called market experimentation along with technological experimentation). *See also* LANDES AND POSNER, *supra,* at 359; Risch, *Trade Secret Law and Information Development Incentives*, *supra,* at 154; Lemley, *The Surprising Virtues of Treating Trade Secrets as IP Right*s, *supra,* at 311.

[251] Again, "non-economic" does not mean non-profit in the tax sense. Courts have long since concluded that non-profit entities can own trade secrets irrespective of their tax status. *See* RESTATEMENT (THIRD) OF UNFAIR COMPETITION, § 39, cmt. (d) (1995).

[252] *Compare* Peggy Lawton Kitchens, Inc. v. Hogan, 18 Mass. App. Ct. 937, 939, 466 N.E.2d 138, 140 (1984) (holding chocolate chip cookie recipe used by a commercial bakery "had competitive value so far as [plaintiff] was concerned.").

[253] This also fails to meet the DTSA's jurisdictional interstate commerce requirement. *See* 18 U.S.C. § 1836(b)(1) (2016) (stating that information must be "related" to a product or service that is used in or "intended" for use in interstate commerce). Congress' power to protect trade secrets under the Commerce Clause is broad, but activity that does not have any effect on commerce could not be within Congress' power to regulate. U.S. Const. Art. I, Sec. 8, Cl. 3. *See also* Christopher B. Seaman, *The Case Against Federalizing Trade Secrecy*, 101 VA. L. REV. 317, 393 (2015) (discussing scope of federal trade secret law's interstate commerce requirement).

Another example of a type failure occurs when the information itself is inherently non-economic in nature. For example, a few cases have tested whether religious scriptures or yoga techniques derive economic value from secrecy. Courts have weighed on the side of protectability, but only so long as the claimant clearly explains how their non-economic subject matter is being used to generate commercial value.[254] For example, the Church of Scientology achieved different outcomes in two cases in which it sought to protect secret "training materials and course manuals of the Scientology religion."[255] In one case, the Church lost, because it did not explain how it made a profit from keeping its materials secret.[256] In the other case, the Church successfully demonstrated that the materials generated "substantial revenue" for the Church "in the form of licensing fees paid by Churches that are licensed to use the [materials,]" as well as from "donations by parishioners for services based upon the [materials.]"[257]

A final example of a type failure is where the plaintiff asserts trade secrecy status for information that does not relate to what the company actually does in its business. Examples include the fact that a company is breaking the law or otherwise-embarrassing information that is not illegal per se, but that, like law-breaking, does not directly relate to the company's research or business activities. A high-profile illustration is the attempt by various tech firms, including Microsoft, to claim "diversity data" as trade secrets. The firms tried to argue they derive the same type of value from keeping their diversity data secret as they do from keeping their technology and business strategies secret. But many speculate the real reason is they do not wish the embarrassingly low numbers to become public.[258]

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[254] *See* Art of Living Found. v. Does 1-10, No. 5:10-CV-05022-LHK, 2012 WL 1565281, at *21 (N.D. Cal. May 1, 2012) (yoga manuals and teacher training materials did not lack "independent economic value" because plaintiff attested they helped distinguish its courses from others and thus attract students).

[255] Religious Tech. Ctr. v. Lerma, 897 F. Supp. 260, 264 (E.D. Va. 1995).

[256] *Id*. at 266 ("[P]laintiff has not demonstrated that the AT documents [containing religious philosophy and training materials for Church] provide plaintiff with any economic advantage over any competitors.")

[257] *Religious Tech. Ctr.,* 923 F. Supp. at 1253.

[258] *See* Jamillah Bowman Williams, HARVARD BUSINESS REVIEW, Feb. 15, 2019 (documenting several instances of "companies, particularly in tech," seeking to protect diversity data and initiatives as trade secrets). *See also* Jamillah Bowman Williams, *Diversity As A Trade Secret,* 107 GEO. L.J. 1685, 1698-1702, n. 68 (2019) (discussing Moussouris v. Microsoft Corp., No. 15-

The disclosure of this type of reputationally-harmful information might benefit the company's competitors or others who could obtain value "from the *disclosure* or use of the information[.]"[259] But it does not impart "*economic*"-type value under the statutes. The relationship to the company's economic-value-generating activities—in Microsoft's case, making high-quality software—is far too attenuated. By contrast, "negative know-how" can be protectable as a trade secret. But this term refers specifically to information regarding mistakes and wrong turns in the course of researching a product or invention that is related to the business, which was costly to develop, and from which others could benefit in their own business operations. [260] It surely does not extend to any "negative" information held within the company.

Protecting potentially-embarrassing information, that isn't related to what a company actually does, is virtually impossible to justify under traditional incentives theory.[261] At the same time, as Charles Tait Graves and Sonia Katyal recently observed, facilitating "seclusion" of secrets that have little to do with companies' core business operations can come at a social cost.[262] For instance, what if the information is relevant to employees' decision to take a job at the company?[263] What if it is relevant to the public at large?[264] A few courts applying the DTSA have reached conclusions consistent with the notion that the mere risk of reputational harm does

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CV-1483 JLR (W.D. Wash. Feb. 16, 2018) (observing that what Microsoft was calling "competitive harm" due to disclosure if its raw diversity data, versus its diversity initiatives, was "essentially business reputational harm.")).

[259] 18 U.S.C. § 1839 (3) (2016) (emphasis added).

[260] UTSA, *supra,* § 1, cmt. *See also* Charles Tait Graves, *The Law of Negative Know-How: A Critique,* 15 TEX. INTELL. PROP. L.J. 387, 391 (2007).

[261] *C.f. Kewanee*, 416 U.S. at 493.

[262] *See* Graves & Katyal, *supra,* at 1380-1390.

[263] *See* Orly Lobel, *Knowledge Pays: Reversing Information Flows and the Future of Pay Equity,* 120 COLUM. L. REV. 547, 588-596 (2020) (arguing that "pay secrecy" and legal limits on workers' ability to reveal their salary to coworkers or others in the industry exacerbates unjustified wage gaps). *See also* Graves & Katyal, *supra*, at 1385-1386 (discussing situations where an employer claims to own trade secrets in the salaries of its employees).

[264] Morten & Kapczynski, *supra,* at 493-495 (critiquing secrecy of clinical trial data).

not suffice to show "economic" value from secrecy.[265] Courts should look out for type failures in future cases. [266]

D. Timing Failures

The final value failure is the timing failure. This is where a trade secret is sought to be protected during the incorrect timeframe. The timing failure occurs on both the front end—when it is too early—and the back end—when it is too late. Each of these situations is discussed below.

1. No Potential Future Economic Value – Intellectual property law has a complicated relationship with undeveloped ideas, and for policy reasons has not traditionally protected mere "products of the mind."[267] Modern trade secret law is explicitly designed to be available for research, prototypes, strategies, and other information held by start-ups and other entities in the pre-commercial phase.[268] Nonetheless, trade secret law is only triggered *if* the information has at least "potential" independent economic value. [269] This is a crucial limitation on protection for mere ideas whose economic value remains purely hypothetical. When a trade secret plaintiff seeks to protect secrets too early in the development timeline, a "timing failure" occurs that should result in dismissal of the claim.

Courts have already recognized timing failure arises in the context of so-called "idea submission" case. This is where the plaintiff asserts legal rights to an idea, and claims they deserve compensation after someone else with whom they shared the idea in confidence uses it

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[265] *Democratic Nat'l Comm*., 392 F. Supp. 3d at 448; *Ukrainian Future Credit Union*, 2017 U.S. Dist. LEXIS 194165 at *23-26.

[266] For example, Waymo is currently alleging that safety information related to its driverless cars, including descriptions of past crashes, are trade secrets. Russ Mitchell, "Waymo sues state DMV to keep robotaxi safety details secret," *Los Angeles Times*, Jan. 28, 2022, at https://www.latimes.com/business/story/2022-01-28/waymo-robot-taxi-sues-state-secret-black-ice *See also* notes *infra* and accompanying text.

[267] *See* Arthur Miller, *Common Law Protection for Products of the Mind: An "Idea" Whose Time has Come*, 119 HARV. L. REV. 703 (2006). *See also* Int'l News Serv. v. AP, 248 U.S. 215, 250 (1918).

[268] *See* UTSA, *supra*, § 1, cmt. (emphasis added). *See also* Hrdy & Lemley, supra, at 30-31.

[269] *See* Robert Denicola, *The New Law of Ideas*, 28 HARV. J. L & TECH. 195, 200, 220 (2014).

without permission.[270] Courts have held idea submissions can potentially be protected as trade secrets, even if they are not yet fully developed. For example, in *Learning Curve Toys, Inc. v. PlayWood Toys, Inc*., the Seventh Circuit found a prototype for a toy train track that made a "clickity-clack" sound was protectable as a trade secret even though it was preliminary and did not work perfectly.[271] However, courts have recognized that sometimes it is just too early to claim legal rights. For example, in a pre-DTSA case, *Postal Presort, Inc. v. Stasieczko,* a Kansas trial court held the plaintiff's early-stage business concept, for a marketing direct mail service, failed independent economic value, explaining that the possibility that the concept might come to fruition in future was not sufficient.[272] The court suggested that, "[e]ven meeting with potential investors or design engineers to discuss the concept" might not have been enough.[273]

Outside of idea-submission cases, there are broader implications for early-stage technologies and nascent industries. If the alleged trade secret relates to a new industry in which commercialization is a remote prospect, it is possible to argue the secrets lack even "potential" economic value. This issue arose recently in *Wisk Aero LLC v. Archer Aviation, Inc*., a trade secrets dispute between two flying air taxi service start-ups. The plaintiff Wisk claimed that Archer misappropriated Wisk trade secrets relating to Wisk's air-taxi service through a former Wisk employee.[274] Wisk claims it has "created the world's first all-electric, self-flying, vertical takeoff and landing air taxi"; that it has invested at least a billion dollars to develop five prototypes; and that it has already taken over 1500 flights.[275] But the company is not yet selling

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[270] These cases may implicate both implied-in-fact contract and trade secret claims. *See* Charles Tait Graves, *Should California's Film Script Cases Be Merged into Trade Secret Law*? 44 COLUM. J. L. & ARTS 21 (2020); Hrdy, *Charles Tait Graves: Idea Submission Cases, Desny Claims, and Trade Secret Law*, WRITTEN DESCRIPTION, March 10, 2021.

[271] Learning Curve Toys, Inc. v. PlayWood Toys, Inc., 342 F.3d 714, 725-726 (7th Cir. 2003).

[272] *Id*. at *6-7.

[273] *Id*. at *6-7.

[274] Complaint, Wisk Aero LLC v. Archer Aviation, Inc., Case 3:21-cv-02450 (N.D. Cal. April 6, 2021), at 3-4.

[275] https://wisk.aero/ (Last visited June 28, 2021). *See also* Scott Graham, *Wisk Aero's Flying Taxi Suit Isn't Yet Ready for Takeoff, Judge Hints*, July 21, 2021, https://www.law.com/therecorder/2021/07/21/wisk-aeros-flying-taxi-suit-isnt-yet-ready-for-takeoff-judge-hints/?slreturn=20210625121633 (Last Visited, July 25, 2021); Tim Hornyak, *The flying taxi market may be ready for takeoff, changing the travel experience forever*, March 7,

air-taxi seats to the general public, and the rapidly evolving industry's future is uncertain. Archer seized on this weakness, alleging that Wisk failed, in its pleadings, to address "whether any one of its alleged trade secrets derives economic value by virtue of being secret[.]"[276] The judge appeared to share Archer's skepticism, denying Wisk's motion for a preliminary injunction because Wisk had "failed to show that the putative secrets derive economic value from their secrecy[.]."[277]

When independent economic value is triggered in these early-stage situations, it sets a de facto start date for the legal right, preventing trade secrets from accruing too early, before there is anything of sufficient value to protect. Independent economic value denies intellectual property rights to putative trade secret owners whose information is too far from realization to deserve protection. There are several analogous doctrines in other areas of intellectual property law.[278] Courts should not ignore what this requirement does for trade secrets. When courts find the information at issue looks too much like a mere idea, they should hold it lacks independent economic value. [279]

20201, https://www.cnbc.com/2020/03/06/the-flying-taxi-market-is-ready-to-change-worldwide-travel.html (Last visited June 28, 2021).

[276] Motion to Strike, *Wisk Aero LLC v. Archer Aviation, Inc*., Case 3:21-cv-02450 (June 16, 2021), at 6, 26, 10.

[277] Tentative Ruling and Hearing Procedure, *Wisk Aero LLC v. Archer Aviation, Inc*., Case 3:21-cv-02450 (July 7, 2021), at 1; Order Denying Preliminary Injunction (July 22, 2021).

[278] One is trademark law's "use in commerce" requirement. 15 U.S.C. § 1127 (defining use in commerce); *see also, e.g.,* United Drug Co. v. Theodore Rectanus Co., 248 US 90, 97 (1918). In fact, funnily enough, a well-known trademark case invalidated a trademark for the name AIRFLITE, which was supposed to be the name for an air taxi service, but the service "never got off the ground." *See* Aycock Engineering, Inc. v. Airflite, Inc. 560 F.3d 1350 (Fed. Cir. 2009). *C.f.* Hrdy & Lemley, supra, at 15-19 (comparing trade secret's common law use requirement to trademark's). A less obvious analogy can be drawn to patent utility, which is sometimes conceptualized as a "timing device," ensuring patentees do not seek rights too early in the development timeline, before the invention has a presently availing or plausibly achievable use. *See* Rebecca S. Eisenberg, *Analyze This: A Law and Economics Agenda for the Patent System,* 53 VAND. L. REV. 2081, 2087 (2000); Julian David Forman, *A Timing Perspective on the Utility Requirement in Biotechnology Patent Applications*, 12 ALB. L.J. SCI. & TECH. 647, 648, 661 (2002).

[279] *Accord* Denicola, *The New Law of Ideas, supra,* at 220.

2. End of Economic Value – Independent economic value also operates on the back end by ensuring trade secrets cannot be protected too late in the information's commercial lifecycle. Trade secrets, unlike patents or copyrights, do not have a fixed statutory term limit.[280] Many commentators state off-handedly that trade secrets can last forever so long as they remain secret.[281] But this is not accurate. Many trade secrets are commercially relevant for only a short window of time and may someday lose their economic-value-from-secrecy. When this occurs, the trade secret expires just as if it had become public. This is yet another a species of "timing failure."

Once again, analogies can be drawn to several other IP doctrines—in particular, to trademark law's doctrine of abandonment due to cessation of use.[282] In trade secret law, independent economic value supplies a similarly "functional" way to set the end date of the trade secret. Like in trademark law, there is no fixed statutory term. But if a secret no longer possesses independent economic value at the time of the alleged act of misappropriation, it is no longer an enforceable trade secret. Many courts and commentators have this recognized this principle.[283] Unfortunately, though, some courts continue to get the timeframe wrong, assuming the trade secret must still have value *when the claim is brought*.[284] For example, in *Sirius Computer Solutions, Inc*., a court suggested independent economic value was not satisfied because the

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[280] Hrdy & Lemley, *supra*, at 12-13. *See also* RESTATEMENT (THIRD) OF UNFAIR COMPETITION, § 39, cmt. (d). (noting that there is no fixed duration for a trade secret).

[281] *See, e.g.*, W. Nicholson Price II, *Regulating Secrecy*, 91 WASH. L. REV. 1769, 1777 (2016) ("Trade secrecy… lasts as long as the information is kept secret.."); Natalie Ram, *Innovating Criminal Justice*, 112 NW. U. L. REV. 659, 666 (2018) ("So long as the information at issue remains secret, the legal protections of trade secret law will attach indefinitely.").

[282] For example, in trademark law, when a trademark ceases to be used in commerce, it is deemed abandoned. Independent economic value can be seen as codifying an abandonment principle akin to trademark law's. Hrdy & Lemley, *supra*, at 17-18. *See also* 15 U.S.C. § 1127 (defining abandonment).

[283] Hrdy & Lemley, *supra*, at 43-44, n. 205 (citing cases). *See also* HALLIGAN AND WEYAND, *supra*, at 136-137 (noting that trade secrets can become "obsolete" not only when they lose their secrecy but also when they become "stale or devoid of economic value[,]" giving the example of a methodology for complying with certain regulations or technical standards that are superseded).

[284] At least one common law decision used this timeframe, assuming a business that had stopped using the trade secret by the time of litigation could not obtain an injunction. *See* Victor v. Iliff, 132 N.E. 806 (Ill. 1921), discussed in Hrdy & Lemley, supra, at 20-21, nn. 91-92.

plaintiff brought its DTSA claim "approximately ten months after" the alleged act of misappropriation, by which time, the court determined, the information had "become stale and any competitive advantage it may have conferred, no longer exists."[285] But under the modern statutes, the requisite independent economic value simply has to exist *at the time of the misappropriation*.[286] The DTSA and UTSA embed this timeframe into the definition of "misappropriation," clarifying that the trade secret needs to exist at the time of the alleged disclosure or use.[287]

The upshot is that, if independent economic value has ended by the date of the alleged misappropriation—for instance, due to a change in the marketplace or a game-changing advancement in the state of the art—then the misappropriation is no longer actionable.[288] Courts held as much under the UTSA.[289] At least one court under the DTSA dismissed on independent economic value in part because the court found the information had become outdated.[290] As the

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[285] Sirius Computer Solutions, Inc. v. Sachs, 2021 U.S. Dist. LEXIS 77595, *10-11 (U.S. D. Ct. N. D. Ill. 2021). *See also Gemini*, 95 Cal. App. 4th at 1263 (observing that any value secrets once had ended by the time of litigation).

[286] A defendant can still make a better argument against granting an injunction if the value of the trade secret has dissipated by the time of judgment. Hrdy, *Elizabeth Rowe: does eBay apply to trade secret injunctions?*, Written Description, Nov. 10, 2019, https://writtendescription.blogspot.com/2019/11/elizabeth-rowe-does-ebay-apply-to-trade.html (Last Visited, July 21, 2021); Hrdy, *Deepa Varadarajan on Trade Secret Injunctions and Trade Secret "Trolls,"* Written Description, Feb. 22, 2020, https://writtendescription.blogspot.com/2020/02/deepa-varadarajan-on-trade-secret.html (Last Visited, July 21, 2021).

[287] *See* 18 U.S.C. § 1839(5); *see also* UTSA, *supra,* § 1. *See also* Hrdy & Lemley, *supra*, at 29. The new Massachusetts statute, arguably superior on this point, embeds this timeframe into the definition of a "trade secret," stating, in relevant part, that a trade secret constitutes information that, "at the time of the alleged misappropriation," provides "economic advantage, actual or potential, from not being generally known …" MASS. GEN. LAWS. Ch. 93, § 42(4)(i) (2020).

[288] The plaintiff can still have a cause of action if the value dissipates *after the date of misappropriation*—for instance perhaps defendant's own actions caused the disclosure. Remedies include damages or a "head start" injunction to eliminate any ill-gotten "commercial advantage." UTSA, *supra,* § 2(a). *See also* 18 U.S.C. § 1836(b)(3) (listing remedies available).

[289] *See, e.g.*, Fox Sports Net N., L.L.C. v. Minnesota Twins P'ship, 319 F.3d 329, 335–36 (8th Cir. 2003) (holding outdated financial information no longer protectable because "obsolete information" "cannot form the basis for a trade secret claim because the information has no economic value.").

[290] *24 Seven, LLC*, 2021 U.S. Dist. LEXIS 15480, at *4.

newly federalized framework evolves, courts should continue use this tool more often to weed out cases based on expired secrets.

Conclusion

Independent economic value is a crucial element of trade secrecy that has been remarkably underexplored. At first blush, independent economic value may seem redundant. Surely no one would bother to protect, let alone litigate over, a trade secret that lacks independent economic value. But well-kept secrets that lack economic value can, and do, end up in court as the subject of trade secret litigation. The standard circumstantial evidence courts use to show independent economic value, including reasonable secrecy precautions and "sweat work" do not in the end prove very much. This is troublesome because independent economic value is the only tool courts have to directly assess the value of information being claimed as a trade secret. When courts fail to use this tool, a variety of negative consequences can result, including wasted court resources,[291] threats to competition and innovation and needless impingement on employee autonomy and mobility,[292] and dangerous restrictions on speech and disclosure of information of public importance.[293]

The article has revealed that several kinds of "value failures"—amount failures, type failures, timing failures, and causation failures—can and do arise in trade secret litigation, probably far more than we know. If courts continue ignoring independent economic value or assuming it can be proven from other factors in the case, negative policy consequences will continue to result. Information that does not derive economic value from secrecy is not a trade secret. To realize the full benefit of this underused statutory element, courts should assess it more comprehensively and consistently, like they do with secrecy and reasonable secrecy precautions. Taking independent economic value more seriously is a first step towards taking trade secrets more seriously.

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[291] *Rockwell*, 925 F.2d at 179.

[292] Lemley, *supra*, at 343; Graves, *supra*, at 338; LOBEL, *supra*, at 1-11; Hrdy & Lemley, *supra*, at 14-15.

[293] Levine, *The Impact of Trade Secrecy on Public Transparency*, *supra*, at 431–32; Graves & Katyal, *supra*, at 1337; Williams, *supra*, at 1698.