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Misconstruing Whistleblower Immunity under the Defend Trade Secrets Act

Peter S. Menell*

In crafting the Defend Trade Secrets Act of 2016 (DTSA), Congress went beyond the federalization of state trade secret protection to tackle a broader social justice problem: the misuse of nondisclosure agreements (NDAs) to discourage reporting of illegal activity in a variety of areas. The past few decades have witnessed devastating government contracting abuses, regulatory violations, and deceptive financial schemes that have hurt the public and cost taxpayers and investors billions of dollars. Congress recognized that immunizing whistleblowers from the cost and risk of trade secret liability for providing information to the Government could spur law enforcement. But could this goal be accomplished without jeopardizing legitimate trade secret protection?

The Immunity Solution

Congress solved the problem through a true "cone of silence." Congress immunized whistleblowers from liability under federal and state trade secret law for disclosure, *in confidence*, of trade secrets to government officials and attorneys for the purpose of reporting or investigating a suspected violation of law. Defend Trade Secrets Act of 2016, § 7 (codified at 18 U.S.C. § 1833(B)(1)(A) (2012)). By limiting disclosure to trusted intermediaries -- government officials bound by state and federal law to protect trade secrets and attorneys bound by confidentiality obligations -- the DTSA whistleblower immunity regime promotes law enforcement without risking commercial harm to legitimate trade secret owners.

Congress recognized that whistleblowers face dire risks of retaliation and costly legal expenses by even consulting with an attorney about allegedly illegal activity by their employer. Hence, merely affording whistleblowers a defense to liability for seeking to provide information about alleged misconduct would do little to promote law enforcement. The mere risk of having to defend trade secret litigation, with its attendant legal costs and career repercussions, would discourage whistleblowers from coming forward or seeking legal counsel. Instead, Congress chose to insulate whistleblowers from exposure to trade secret liability through an express grant of immunity.

* Koret Professor of Law and Director, Berkeley Center for Law & Technology, University of California, Berkeley, School of Law. An earlier draft of Professor S. Menell, *Tailoring a Public Policy Exception to Trade Secret Protection*, 105 CAL. L. REV. (forthcoming 2017), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2686565, attracted the attention of congressional staff members working on the Defend Trade Secrets Act of 2016. Section 7 of that legislation ("Immunity from Liability for Confidential Disclosure of a Trade Secret to the Government or in a Court Filing") implements the proposals set forth in that article.

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As Senate Judiciary Committee Chairman Charles Grassley, a co-sponsor of the whistleblower immunity provision, explained, "Too often, individuals who come forward to report wrongdoing in the workplace are punished for simply telling the truth. The amendment I championed with Senator Leahy ensures that these whistleblowers won't be slapped with allegations of trade secret theft when responsibly exposing misconduct. It's another way we can prevent retaliation and even encourage people to speak out when they witness violations of the law." See Leahy-Grassley Amendment Protecting Whistleblowers Earns Unanimous Support in Judiciary Committee (Jan. 28, 2016), available http://www.grassley.senate.gov/news/news-releases/leahy-grassley-amendment-protecting-whistleblowers-earns-unanimous-support.

Senator Leahy added that "Whistleblowers serve an essential role in ensuring accountability. *It is important that whistleblowers have strong and effective avenues to come forward without fear of intimidation or retaliation.* The amendment I authored with Senator Grassley takes another important step in our bipartisan efforts to protect whistleblowersand promote accountability." *Id*. (emphasis added).

In immunizing whistleblowers from trade secret liability, Congress recognized that whistleblowers serve as quasi-public actors -- private attorneys general. Under the False Claims Act, for example, the whistleblowing "relator" acts in the name of the government. The relator's counsel works in conjunction with government enforcers. The government obtains the recovery and rewards the relator a share for his or her assistance. In other types of whistleblower programs, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act 's SEC and CFTC regimes, the whistleblower provides information in confidence to the government and receives a reward if the government is successful in recovering funds.

By its essential nature, immunity extinguishes liability before litigation gets underway, just as a vaccine immunizes the patient against disease, and thus differs from a "defense" to liability. As Justice Anthony Kennedy explained in *Saucier v. Katz*, 533 U.S. 194 (2001), a case applying qualified-immunity to a claim that a Secret Service agent had used excessive force in removing a protester, immunity is not a "mere defense" to liability but an "immunity from suit." The Court stressed that immunity issues must be resolved as early as possible based on the public policies animating the grant of immunity. In the context of qualified immunity, for example, the "concern of the immunity inquiry is to acknowledge that reasonable mistakes can be made as to the legal constraints on particular police conduct." Officers have difficulty in assessing the amount of force that is required in a particular circumstance. If their mistake as to "what the law requires is reasonable, however, the officer is entitled to the immunity defense." In the DTSA context, the purpose of the immunity was to eliminate the need for a whistleblower to undergo the expense and strain of defending a trade secret lawsuit.

The DTSA whistleblower immunity went into effect on May 11, 2016, the day the DTSA was signed into law. The first reported decision applying the whistleblower immunity provision issued on December 6, 2016. *Unum Group v. Loftus*, --- F.Supp.3d --

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--2016 WL 7115967 (D. Mass.). Unfortunately, the court misconstrued the immunity provision, creating the very chilling effects that Congress mandated that the courts avoid.

Unum Group v. Loftus

According to the court's background summary, Unum Group, a Fortune 500 insurance company, hired Timothy Loftus in 1985. Unum promoted Loftus to Director of Disability Insurance Benefits in 2004. In September 2016, Unum's in-house counsel interviewed Loftus as part of an internal investigation of claims practices. Later that week, Loftus removed several boxes of information and a laptop computer from the Unum offices after usual business hours. Unum requested that Loftus return these materials. Loftus refused to return the documents, although he did return the laptop. Through his counsel, Loftus informed Unum that the documents "may be evidence or otherwise have a material bearing on certain matters which are the subject of both historical and current governmental inquiries concerning the business practices of Unum" and that the documents had been secured to prevent their destruction "pending both internal and apparent external investigations of misconduct at Unum." On October 21, 2016, Loftus' counsel informed Unum's counsel that Loftus provided the documents to his counsel to obtain an "analysis of his legal position vis a vis his employer and the issue of his employer's compliance with the regulatory settlement agreement to which it was a party." Nonetheless, Unum sued Loftus for federal and state trade secret misappropriation as well as state law conversion.

This lawsuit presents a straightforward application of the whistleblower immunity provision, which provides in relevant part:

> (1) Immunity. --An individual shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that--
> (A) is made--
> (i) in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney; and
> (ii) solely for the purpose of reporting or investigating a suspected violation of law; or
> (B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.

18 U.S.C. § 1833(b). Not only is the section specifically identified as "Immunity," but the provision requires that employers notify employees of "*the immunity* set forth in this subsection." 18 U.S.C. § 1833(b)(3)(A)(emphasis added). Therefore, Loftus' motion to dismiss the federal and state trade secret claims should have been granted. With dismissal of the trade secret claims, the state conversion claim loses its jurisdictional hook and likewise should have been dismissed. Furthermore, Loftus should have been awarded attorney's fees for having to defend a bad faith misappropriation claim. See 18 U.S.C. § 1836(b)(3)(D).

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The court, however, misapprehended the DTSA whistleblower protection scheme. Rather than recognize that Loftus enjoyed *immunity* from liability, the court treated the whistleblower provision merely as an affirmative defense. The court declined to dismiss the trade secret misappropriation claim on the following basis:

> While Loftus contends that he is entitled to immunity under the DTSA because he handed Unum's documents over to his attorney to pursue legal action against Unum for alleged unlawful activities, the record lacks facts to support or reject his affirmative defense at this stage of litigation. There has been no discovery to determine the significance of the documents taken or their contents, and Loftus has not filed any potential lawsuit that could be supported by information in those documents. Further, it is not ascertainable from the complaint whether Loftus turned over ***all*** of Unum's documents to his attorney, which documents he took and what information they contained, or whether he used, is using, or plans to use, those documents for any purpose other than investigating a potential violation of law. Taking all facts in the complaint as true, and making all reasonable inferences in favor of Unum, the court finds the complaint states a plausible claim for trade secret misappropriation and declines to dismiss [the trade secret misappropriation claims]." (Emphasis in original.)

This is precisely the murky situation that Congress expressly corrected when it *immunized* employees and contractors. Notwithstanding that Unum provided no evidence that Loftus has done anything more than share company records with his counsel as part of an effort to investigate a suspected violation of law, the court nonetheless imposed upon Loftus the burden of proving that he did not have an improper purpose. In so doing, the court ignores the vaccine and subjects Loftus to the very disease that Congress cured: the imposition of substantial costs and adverse career repercussions by sharing, in confidence, company documents with counsel. Under the court's approach, any trade secret owner can require a whistleblower to defend a trade secret lawsuit merely by alleging that there is a dispute over the employee's motivation for providing trade secret documents to their attorney.

It was this very catch-22 that led Congress to immunize potential whistleblowers. Prior to passage of the DTSA, courts recognized a limited public policy privilege to disclose trade secrets. See Restatement (Third) of Unfair Competition § 39 cmt. c (1995) (noting that the exception "depends upon the circumstances of the particular case, including the nature of the information, the purpose of the disclosure, and the means by which the actor acquired the information"); Peter S. Menell, *Tailoring a Public Policy Exception to Trade Secret Protection*, 105 Cal. L. Rev. (forthcoming 2017). But uncertainty about the existence, scope, and requirements of a public policy defense and imposing on lay whistleblowers, as some courts had, the requirement of demonstrating that they provided only "relevant" information was viewed as undermining the important public purpose of encouraging whistleblowers to come forward. The DTSA regime, which provides employees and contractors a clear, straightforward, and reasonable procedure for consulting counsel, serves the paramount public interest in promoting law

enforcement and ferreting out corporate fraud while providing appropriate protection for legitimate trade secrets.

In concluding its opinion, the court notes that "no whistleblower suit has been filed. Unum does not know what Loftus took or what he is going to do with it. Loftus's self-help discovery and threat of potential action in the future are not mitigated by the existence of an actual lawsuit." Yet virtually all whistleblower cases begin this way. The False Claims Act, for example, authorizes a relator to submit material evidence and information to the government under seal and to file a complaint under seal and without providing it to the defendant while the government investigates the allegations. 31 U.S.C. § 3730(b)(2). The purpose of the seal is to protect the government's investigation, *see State Farm Fire and Cas. Co. v. United States ex rel. Rigsby*, __ S.Ct. __, 2016 WL 7078622 *6 (U.S. Dec. 6, 2016), which routinely (and ideally) occurs without notice to the defendant.

Turning Immunity on its Head

The court's overbroad remedial order turns Congress' immunity regime on its head. The court's preliminary injunction orders Loftus and his counsel to turn over all Unum documents -- whether in print or electronic form -- to the court, destroy all copies of Unum documents, and to not make any copies of Unum documents. The court ordered Loftus to not deliver any Unum documents to any third party (presumably including the government) without the express permission of the court. The court further ordered Loftus and his counsel to file an affidavit setting forth whether Unum documents have been given to any third party, and, if so, the circumstances under which said documents were given.

The court's order also undermines the very investigatory and reporting activities specifically authorized by the DTSA, the False Claims Act, the Dodd–Frank Act, and various other whistleblower statutes and protections. These statutes have detailed provisions that allow the government and whistleblowers to investigate potential violations of law without the knowledge or interference of the target company. Yet, in misconstruing the DTSA's whistleblower immunity regime, the court has effectively provided Unum with pre-investigation discovery of potential regulatory violations and has effectively commandeered such investigation.

Faithful, Balanced Implementation of Whistleblower Immunity

In addressing the dilemma of encouraging law enforcement while protecting trade secrets, Congress granted employees and contractors immunity so long as they follow a clear and straightforward process. They may share company documents with their attorneys in confidence for the purpose of investigating allegedly illegal corporate activity or pursuing a retaliation claim. Employers may not pursue trade secret liability for such confidential disclosures. The purpose of the whistleblower immunity regime is clear: Trade secret law may not be used to hide allegedly illegal conduct or discourage

investigation of such matters. By choosing immunity, Congress shifted the law and legal process from the employer's advantage to the employee's and the public's.

The court's sole role in a case such as *Unum Group v. Loftus* is to decide whether immunity applies, with due regard for the DTSA's protected activities and public purposes. Where, as here, the employee asserts under oath that he disclosed company documents to government officials or an attorney in confidence solely for the purpose of reporting or investigating a suspected violation of law, the DTSA whistleblower regime requires the employer-trade secret owner to come forward with concrete evidence that the employee or contractor has shared trade secret information outside of the protected categories or for an impermissible purpose. Absent such evidence, the employee-contractor remains free to work with counsel to investigate and report alleged violations of law and immune from suit for trade secret violations.