

Management Alert



Push for Federal Trade Secret Legislation Gaining Momentum

By Robert B. Milligan

Federal legislators introduced bills this year to create a civil cause of action for private litigants in federal court for trade secret misappropriation.

With the most recent *bill* introduced in the House by a bi-partisan coalition in late July, there appears to be surging momentum for the passage of federal trade secrets legislation this fall, particularly with several leading companies and business groups supporting the creation of a federal civil remedy.

The Economic Espionage Act, which provides criminal liability for trade secret misappropriation, currently only authorizes civil actions by the Attorney General but not by private parties. Accordingly, unless diversity jurisdiction exists, or there is some other hook such as a cause of action brought under the federal Computer Fraud and Abuse Act, there is currently no basis to bring a civil trade secret cause of action in federal court.

Instead, plaintiffs are left to bring trade secret claims in state court under various state statutory adoptions of the Uniform Trade Secrets Act. Massachusetts and New York have not adopted the UTSA and trade secret claims are brought under the common law in those jurisdictions.

There are inconsistencies and differences among some states concerning their specific adoption of the UTSA and some courts have differing interpretations regarding the key provisions of the UTSA. In sum, there are significant differences among some states concerning key issues such as recoverable damages/royalties, preemption, trade secret identification, reasonable secrecy measures, statute of limitations, and reverse engineering. Thus, companies who conduct business in the United States often must address differing and conflicting standards when trying to protect their trade secrets throughout the nation.

Senate Bill: *Defend Trade Secrets Act*

On April 29, 2014, Sens. Christopher Coons (D-Del.) and Orrin Hatch (R-Utah) introduced the *Defend Trade Secrets Act of 2014*. The bill amends the Economic Espionage Act to provide a civil cause of action to private litigants for violations of 18 U.S.C. § 1831(a) and 1832(a) of the EEA and for “misappropriation of a trade secret that is related to a product or service used in, or intended for use in, interstate or foreign commerce.” According to the sponsors, the bill will *provide* uniform trade secrets protection and federal remedies across the United States. They also stated that there is a *need* for legislative action with an estimated \$160 to \$480 billion lost to trade secrets theft in the United States and the ease of theft in the electronic age.

The bill marked the latest attempt in the past four years to create a private civil cause of action for trade secret misappropriation at the federal level. The following bills previously failed: Amendment to Currency Exchange Rate Oversight Reform Act of 2011, Protecting Trade Secrets and Innovation Act of 2012 (“PATSIYA”), and Private Right of Action Against Theft of Trade Secrets Act of 2013 (“PRATSA”).

The bill provides for a five year statute of limitations and provides uniform remedies for misappropriation of trade secrets. It provides for injunctive relief to prevent any actual or threatened misappropriation of trade secrets. It also allows for affirmative actions to be taken to protect trade secrets. With respect to damages, it provides damages for actual loss, unjust enrichment, and a reasonable royalty in certain scenarios. Additionally, in exceptional circumstances, royalties can be awarded for the use of trade secrets in lieu of a permanent injunction. In cases of willful or malicious misappropriation, the bill provides for exemplary damages of not more than three times the actual damages. It also provides for attorneys fees’ and costs for willful and malicious misappropriation or for the pursuit of a trade secret cause of action in bad faith.

It also provides for *ex parte* orders for preservation of evidence and seizure of any property used, in any manner or part, to commit or facilitate a violation of the statute, using the procedure contained in the Lanham Act.

Lastly, the bill provides that nothing in the statute “shall be construed . . . to preempt any other provisions of law.” Accordingly, the intent of the bill is not to preempt state UTSA claims. It is unclear whether state common law claims would also not be subject to preemption.

House Bill: *Trade Secrets Protection Act*

On July 29, 2014, a similar bill, entitled the *Trade Secrets Protection Act of 2014*, was introduced into the House, by a bipartisan group led by George Holding (R-N.C) and Jerrold Nadler (D-NY).

“American businesses face relentless cybersecurity threats every day, costing our economy billions of dollars and tens of thousands of jobs each year,” said Rep. George Holding in his [press release](#) in support of the bill.

“As a way to help create jobs, grow our economy and protect our businesses, I have introduced the Trade Secrets Protection Act of 2014. This bill will help supply American businesses, both large and small, with the tools needed to combat these destructive threats,” he added.

“American businesses are global leaders in innovation and job creation, yet they are faced with increasing threats to valuable information. The current patchwork within state and federal statutes is not enough to keep pace with organized trade secret theft, resulting in a loss of nearly \$100 billion which could mean 200,000 jobs, a recent report stated,” he remarked.

“By helping American businesses defend against these threats, we are not only protecting American interests, but helping recover the millions of dollars and thousands of jobs lost each year,” Holding concluded.

The bill is co-sponsored by Holding, Howard Coble, R-N.C., Hakeem Jeffries, D-N.Y., Steve Chabot, R-Ohio and John Conyers, D-Mich.

Differences Between the Two Trade Secret Bills

The House bill largely tracks the Senate’s Defend Trade Secrets Act but has three notable and significant modifications, which are tracked in this [redline](#):

- 1) It only permits a civil claim for “misappropriation of a trade secrets that is related to a product or service use in, or intended for use in, interstate or foreign commerce.” It does not permit a claim for a violation of 18 U.S.C. § 1831(a) and 1832(a).
- 2) It permits a seizure order on an *ex parte* basis to preserve evidence or to prevent the propagation or dissemination of the trade secret that is the subject of the action but it has certain precautions and limitations not found in the Senate bill.

3) It clarifies that it only covers misappropriation actions that occur on or after it is enacted.

With respect to the seizure order language, in order to obtain an *ex parte* order, the plaintiff must show, that (1) a temporary restraining order under Rule 65(b) would be inadequate because the defendant would evade, avoid, or otherwise not comply with such order; (2) an immediate and irreparable injury will occur if seizure is not ordered; (3) the harm to the plaintiff of denying the order outweighs the legitimate interests of defendant and substantially outweighs any harm to third parties; (4) the plaintiff is likely to succeed against the defendant in showing that the defendant misappropriated the trade secret and is in possession of the trade secret; (5) the plaintiff described with particularity the matter to be seized and the location where the matter is to be seized; (6) the defendant would destroy or make the property inaccessible to the court if the plaintiff were to proceed on notice; and (7) the plaintiff has not publicized the request.

Additionally, the court's order must (1) minimize any interruption of the business operations of third parties and the defendant that is unrelated to the trade secret that has allegedly been misappropriated; (2) protect the property from disclosure to plaintiff; (3) set a hearing date no later than seven days after the order is issued; and (4) require a security adequate to cover damages from a wrongful or excessive seizure. The court is required to take appropriate action to protect the defendant from publicity. The court is also required to take custody of the material ordered seized. Lastly, any person who suffers damage by reason of a wrongful or excessive seizure has a cause of action against the plaintiff.

In sum, the most significant difference between the bills is the clarification and refinement of the seizure order. Please see my recent [video blog](#).

Analysis and Discussion of the Legislative Movement

According to sources, there may not be any significant opposition by the Senate sponsors to the House's version of the trade secret bill.

With some attention away from patent reform on the Hill, there may be an opportunity to get a trade secret bill done in the fall. Congress has shown an ability to pass amendments to the Economic Espionage Act in recent years. We expect that there will be activity on the bills in early September with possible votes taken in mid-to-late September.

There appears to be some very positive momentum for the bills, including bi-partisan support in both houses by high ranking legislators and likely support by the Obama Administration. Additionally, on the right, the Heritage Foundation recently wrote an article in [support](#) of a private right of action. On the left, Congresswoman Zoe Lofgren previously proposed creating a civil cause of action in federal court last year in the PRATSA bill. Also, a diverse set of companies and organizations have come out in favor of [legislation](#) or the concept of a federal civil cause of action, including Adobe, Boeing, Microsoft, IBM, Honda, DuPont, Eli Lilly, Broadcom, Caterpillar, NIKE, Qualcomm, General Electric, Michelin, 3M, United Technologies Corporation, AIPLA, ABA IP Section, National Association of Manufacturers, and the National Chamber of Commerce.

As indicated NAM [supports the bill](#), noting that it marked "a critical step toward ensuring manufacturers can effectively and efficiently enforce their trade secrets at home and abroad." "[Trade secret] theft costs businesses in this country some \$250 billion a year," the group said. "The Trade Secrets Protection Act would help to address this challenge by providing access to federal civil enforcement for trade secrets theft. Right now, businesses must go state by state to defend their rights."

Proponents of the bill cite the advantages of a federal cause of action, as among other things, a unified and harmonized body of law that addresses discrepancies under the existing law and provides companies a uniform standard for protecting its proprietary information. It may treat trade secrets on the same level as other IP and establish them as a national priority, address national security concerns, and create a demonstrative effect on major foreign jurisdictions. The bill may provide a complimentary measure to combat trade secret misappropriation by private industry in light of strained government resources. These are also service of process advantages, ease of conducting nationwide discovery, and additional remedies to aid victims, such as seizure.

Additionally, the former head of the Patent Office, David Kappos recently came out in favor of the bill on behalf of the Partnership of American Innovation *stating*, “Trade secrets are an increasingly important form of intellectual property, yet they are the only form of IP rights for which the protection of a federal private right of action is not available. The Trade Secrets Protection Act will address this void, and the PAI supports its swift enactment.”

While no formal opposition has been organized yet, various attorneys skeptical of the legislation cite federalism concerns, legislation in search of a problem, the alleged over breadth of the seizure language, and the perceived burden on the federal courts.

We will carefully track the developments of these bills going forward this year. It is important to note that like the United States, the European Commission is *considering* a directive providing more uniform protection of trade secrets.

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