

Management Alert



Seyfarth Shaw LLP's Trade Secrets Group Creates Resource To Track Latest Updates on Proposed Federal Trade Secrets Legislation

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With increased activity regarding proposed federal trade secret legislation expected this month and for the remainder of the fall Congressional session, Seyfarth Shaw's dedicated Trade Secrets group has created a resource on its Trading Secrets blog (www.tradesecretslaw.com) which summarizes the proposed legislation, outlines the arguments in favor of and against the legislation, and provides additional legislation resources for our readers' convenience. This [page](#) will be continuously updated as we monitor and keep you apprised of the most recent developments, debate, and news regarding the legislation.

Currently, there is a scheduled markup of the [House trade secrets bill](#) before the House Judiciary Committee on September 10, 2014, at 10:00 a.m. EST. We plan to cover it all with live-tweeting at [@tradesecretslaw](#) and [@joshsalinas](#).

Below we provide a general overview of trade secret law and the proposed legislation, the arguments on both sides of the debate, and our most current resource links.

How Are Trade Secrets Currently Protected?

Trade secrets consist of information and can include a formula, pattern, compilation, program, device, method, technique or process. To meet the most common definition of a trade secret, it must be used in business, and give an opportunity to obtain an economic advantage over competitors who do not know or use it. Trade secrets are generally protected by statute under the Uniform Trade Secrets Act (UTSA). The UTSA, published by the Uniform Law Commission (ULC) in 1979 and amended in 1985, was an act promulgated in an effort to provide a unified legal framework to protect trade secrets.

Texas recently became the 48th state to enact some version of the UTSA. New York and Massachusetts are the remaining states not to have enacted the UTSA. Trade secrets are protected in those jurisdictions under the common law.

Trade secrets are also protected under federal criminal laws, i.e. the Economic Espionage Act of 1996, as well as state criminal laws.

Unlike patent, trademark, or copyright protection, there is no set time period for trade secret protection. A trade secret is protected as long as it is kept secret. However, once a trade secret is lost, it is lost forever. As we have seen in a post-Wikileaks world, once confidential information is disclosed, it can be instantly distributed online for hundreds of millions to see, access, and download, and thereby lose its trade secret status.

What Is the Proposed Legislation?

The proposed legislation would authorize a private civil action in federal court for the misappropriation of trade secrets when certain circumstances are present and certain specified requirements are met. Two bills have been recently introduced into Congressional committee:

A. 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 Senate sponsors, the bill will provide uniform trade secrets protection and federal remedies across the United States.

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 (“PATSI”), and the Private Right of Action Against Theft of Trade Secrets Act of 2013 (“PRATSA”).

The bill uses the statutory language for “improper means” and “misappropriation” from the UTSA. The bill also 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, such as protective orders. 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.

B. 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 was originally co-sponsored by Holding, Howard Coble, R-N.C., Hakeem Jeffries, D-N.Y., Steve Chabot, R-Ohio and John Conyers, D-Mich. Additional House members have subsequently joined these members in co-sponsoring the bill.

What Are The Differences Between The Two Bills?

The House bill largely tracks the Senate's Defend Trade Secrets Act but has three notable and significant modifications:

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 Federal Rule of Civil Procedure 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 applicant 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.

Accordingly, the House bill provides even more restrictions and safeguards on the ability to obtain an *ex parte* seizure order. In sum, the most significant difference between the bills is the clarification and refinement of the seizure order and the exclusion of section 1831 and 1832 civil claims.

Do We Need Federal Trade Secrets Legislation?

Many business, professional, political, and academic leaders have called for the creation of a federal civil cause of action for trade secret misappropriation. There has been some vocal opposition to the legislation as well.

Recent scholarly articles in the *Gonzaga Law Review* and *Fordham Law Review* indicate that federal courts may be more equipped to devote resources to trade secret claims so as to establish a uniform body of case law, like other intellectual property. See *A Statistical Analysis of Trade Secret Litigation in State Courts*, 46 *Gonzaga Law Review* 57 (February 2011); *Four Reasons to Enact a Federal Trade Secrets Act*, 19 *Fordham Intellectual Property, Media & Entertainment Law Journal* 769 (April 2009).

Additionally, published reports indicate that there is a growing rise in trade secret theft from foreign hackers and rogue employees interested in obtaining U.S. businesses' trade secrets. Foreign economic collection and industrial espionage against the United States represent significant and growing threats to the nation's prosperity and security. In response, the Obama Administration released a [150-page report](#) that unveiled a government-wide strategy designed to reduce trade secret theft by hackers, employees, and companies. In its published strategy plan, the Obama Administration recognized the accelerating pace of economic espionage and trade secret theft against U.S. corporations and suggested looking into creating additional legislative protections.

Additionally, security company Mandiant published a [report](#) finding that the Chinese government is sponsoring cyber-espionage to attack top U.S. companies. Moreover, CREATE.org released a [whitepaper](#) that highlighted how far-reaching and deeply challenging trade secret theft is for companies operating on a global scale. Further, a [report](#) commissioned by IT security company Symantec revealed that half of the survey respondents, employees from various countries, including the United States, revealed that they have taken their former employer's trade secret information, and 40 percent say they will use it in their new jobs. Lastly, estimates of trade secret theft range from one to three percent of the Gross Domestic Product of the United States and other advanced industrial economies, according to a new [report](#) by PwC US and CREATE.org.

Indeed, the [recent expansion of penalties](#) and [expanded definition of trade secrets](#) under the EEA reflect a recognition by the government that the EEA is a valuable tool to protect secret, valuable commercial information from theft and that Congress can work in a bi-partisan effort to address such theft.

The significant harm caused by economic espionage for the benefit of foreign actors is illustrated by a recent case where a project engineer for the Ford Motor Company copied 4,000 Ford Motor Company documents onto an external hard drive and delivered them to a Ford competitor in China. The documents contained trade secret design specifications for engines and electric power supply systems estimated to be worth between \$50 million and \$100 million. Similarly, a former employee of a North American automotive company and the employee's spouse were found guilty of stealing trade secrets related to hybrid vehicle technology worth \$40 million. The couple intended to sell the information to a Chinese competitor.

There is also significant harm caused by economic espionage committed by insiders. An employee of a large U.S. futures exchange company pleaded guilty to stealing more than 10,000 files containing source code for a proprietary electronic trading platform. Prosecutors estimated the value of these trade secrets between \$50 and \$100 million. The employee said he and two business partners had planned to use this source code to develop their own company.

Some believe that the United States currently has an un-harmonized patchwork of trade secret protection laws that are ill-equipped to provide an effective civil remedy for companies whose trade secrets are stolen. Not all states have adopted the Uniform Trade Secrets Act, and many differ in the interpretation and implementation of certain trade secret laws. For instance, states have differences in their definition of a trade secret and what is required to maintain a claim for trade secret misappropriation. Some states have found a novelty requirement for information to be considered a trade secret and some are more protective of customer lists. There are also several states that have different statute of limitations for trade secret claims and there are also significant differences on the availability of a royalty injunction. Many states also did not pass Section 8 of the UTSA which provides, "[t]his [Act] shall be applied and construed to effectuate its general purpose to make uniform the law with respect to the subject of this [Act] among states enacting it." Moreover, victims of trade secret theft can face lengthy and costly procedural obstacles in obtaining evidence when the misappropriators flee to other states or countries or transfer the evidence to other states or countries.

Proponents and Sponsors of the Bills

The two pending trade secret bills have bi-partisan support in both houses by high ranking legislators. Additionally, the [Heritage Foundation](#) recently wrote an [article](#) in support of a private right of action. Congresswoman Zoe Lofgren, D-Cal., previously proposed creating a civil cause of action in federal court last year with 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, IPO, 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 bills have cited 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. Federal legislation will 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 also provide a complimentary measure to combat trade secret misappropriation by private industry in light of strained government resources. A federal cause action may also provide service of process advantages, the 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."

Erik Telford of the *Franklin Center for Government and Public Integrity* added, "[t]he weakness of these laws is that there is no overarching legal framework at the federal level to account for both the sophistication and international nature of new threats. As Mr. Kappos noted, even the government is bound by finite resources in its efforts to protect companies, evidenced by the fact that under the Economic Espionage Act, the Department of Justice initiated only 25 cases of trade secret theft last year."

Opposition To The Bills

A group of 31 professors from throughout the United States who teach and write about intellectual property law, trade secret law, invocation and/or information have submitted an *Opposition Letter* to the two bills. The professors cite five primary reasons for their opposition: (1) effective and uniform state law already exists; (2) the proposed Acts will damage trade secret law and jurisprudence by weakening uniformity while simultaneously creating parallel, redundant, and/or damaging law; (3) the Acts are imbalanced and could be used for anti-competitive purposes; (4) the Acts increase the risk of accidental disclosure of trade secrets; and (5) the Acts have potential ancillary negative impacts on access to information, collaboration among businesses, and mobility of labor. A *forthcoming article* by Washington and Lee University School of Law professor Christopher Seaman critiques the federalization of trade secrets law. See also Mr. Seaman's *related guest post* at the Patently-O blog.

Current Status Of Proposed Legislation

Both bills have been introduced into their corresponding judiciary committee.

The Senate Judiciary Committee held a *closed-door briefing* on September 4, 2014 to review the proposed legislation.

A mark up of the House bill before House Judiciary Committee is scheduled for September 10, 2014, at 10:00 a.m. EST. Live streaming may be available at <http://judiciary.house.gov/>.

Additional News and Resources

Our Recent Blog Articles:

[Push for Federal Trade Secret Legislation Gaining Momentum](#) — Aug. 13, 2014

[Webinar Recap! Trade Secret and Non-Compete Legislative Update](#) — June 23, 2014

[Big Changes May Be Ahead for the Nation's Trade Secret Laws](#) — May 13, 2014

[U.S. Senators Propose Legislation To Strengthen Federal Criminal Trade Secret Laws](#)— Aug. 13, 2013

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Representative Zoe Lofgren Introduces Bill to Create Private Civil Claim for Trade Secrets Theft Under the Economic Espionage Act — June 26, 2013

Obama Administration's Request for Public Comment on Trade Secrets Law Underscores Importance for Companies to Protect Their Proprietary Assets Now — April 16, 2013

New Federal Trade Secrets Legislation Proposed — July 19, 2012

Other Recent News and Informative Articles:

U.S. Trade Secrets Law, Intellectual Property — Bloomberg, Sept. 9, 2014

Trade secrets: even more exposed! — IP Kat, Sept. 8, 2014

Protecting Trade Secrets to Stimulate Knowledge Flows — Ideas Lab, Sept. 4, 2014

US trade secret law: Time for an upgrade — Tech Policy Daily, Sept. 3, 2014

Ready to Nationalize Trade Secret Law? — Patently-O, Aug. 27, 2014

Law Professors Oppose Federal Trade Secrets Acts, Ignore Their Benefits — Protecting Trade Secrets, Aug. 26, 2014

Why Protecting Our Trade Secrets Is Essential To Saving the Economy — Business Insider, Aug. 18, 2014

Congressman Holding Introduces Bipartisan "Trade Secrets Protection Act of 2014" — Press Release, July 29, 2014

BSA Applauds Introduction of Trade Secrets Legislation in the House — The Software Alliance, July 28, 2014

Proposed U.S. and EU trade secret laws could create more tools to protect your valuable information — InsideCounsel, July 22, 2014

Business leaders endorse Senator Coons' bipartisan bill to strengthen protection of trade secrets — Press Release, May 14, 2014

Senator Coons' bipartisan intellectual property legislation to be focus of Tuesday hearing — Press Release, May 12, 2014

Request for Public Comments on "Trade Secret Theft Strategy Legislative Review" — IP Enforcement Coordinator Hon. Victoria Espinel, April 22, 2013

Create.org and PwC: Economic Impact of Trade Secret Theft

Chamber of Commerce: The Case for Enhanced Protection of Trade Secrets in the Trans-Pacific Partnership Agreement

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