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LAWFLASH

CONGRESS CONSIDERS LANDMARK TRADE SECRET REFORMS

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Major federal trade secret legislation is receiving strong bipartisan support and consideration in the US Congress. The legislation would modernize and strengthen trade secret law and address a number of problems commonly encountered under current law. If enacted, the legislation would represent the most significant trade secret reform in many years.

As the latest development, on January 28, the US Senate Committee on the Judiciary (Senate Judiciary Committee) reported out the Defend Trade Secrets Act of 2016 (DTSA), S. 1890,[1] on a unanimous voice vote. The Senate is expected to consider the reform measure next. Similar bipartisan legislation, H.R. 3326, has been introduced in the US House of Representatives.[2]

BACKGROUND: CHALLENGES IN PROTECTING TRADE SECRETS TODAY

Trade secrets take many forms and represent a tremendous value to the US economy. Trade secrets touch nearly every sector of the economy, including the technology, financial institution, health, manufacturing, automobile, agriculture, and military industries, among many others.[3] Trade secrets can include commercial information, such as “financial, business, scientific, technical, economic, or engineering information.”[4] Some trade secret examples include prototypes, plans, processes, codes, designs, methods, and techniques.

Trade secret theft can be devastating on many levels. Theft can destroy the value of a trade secret and competitive advantages for a trade secret owner. It can result in lost jobs and harm to a company or industry. The cost of trade secret theft has been estimated to be “from one to three percent of the Gross Domestic Product (GDP) of the United States and other advanced industrial economies.”[5]

When trade secrets are stolen by insiders, hackers, or competitors, obtaining meaningful relief under current law can be challenging, particularly when the trade secrets are removed to other jurisdictions or outside the United States. Unlike other forms of intellectual property, trade secret owners are currently limited to state law remedies after trade secrets are misappropriated. Currently, 47 states have enacted some form of the Uniform Trade Secrets Act (UTSA).[6] These state-based remedies may be effective for the misappropriation of a local trade secret. However, under state law, efforts to obtain remedies for stolen

trade secrets taken to other jurisdictions can be cumbersome, costly, and ineffective. For example, the process to obtain a deposition of a witness in another state can require multiple court orders and delay. Instead, in federal court, parties have nationwide subpoena service power.[7]

DTSA KEY FEATURES

Although preserving the option for a trade secret owner to use state law remedies, DTSA would modernize and enhance trade secret protection laws and provide more uniform protection for trade secret owners. DTSA amends the Economic Espionage Act of 1996 (EEA), which provides for federal criminal penalties for trade secret misappropriation and foreign economic espionage and adds new federal civil protections.

Some of the key features of the legislation include the following:

- **Federal Private Right of Action:** For the first time, a federal private right of action could be used to remedy trade secret misappropriation for trade secrets “related to a product or service used in, or intended for use in, interstate or foreign commerce.”[8] Remedies would no longer be limited to state law. More importantly, trade secret owners would have a choice about whether federal or state law was best to address the misappropriation under the circumstances.

The federal court process would be more efficient and effective to obtain witness depositions and discovery, particularly when a trade secret has already been or may be transported across state lines. Federal civil remedies are already available for other forms of intellectual property, including copyrights, trademarks, and patents. The legislation provides the same federal options for trade secrets.

- **Seizure and Recovery of Stolen Trade Secrets:** The legislation provides a new *ex parte* seizure provision to recover stolen trade secrets pending a full court hearing.[9] Upon a proper showing in “extraordinary circumstances,” a trade secret owner can request a short-term *ex parte* seizure order to seize “property necessary to prevent the propagation or dissemination of the trade secret.”[10] The court order is served by a law enforcement officer, not a party to the case.[11] Any seized materials would remain in the custody of the court pending further court determination.

The *ex parte* seizure order is subject to several restrictions, including requirements that (1) there be no other adequate equitable relief available, (2) the court has determined that the applicant is likely to be able to show that the target of the seizure misappropriated and has “actual possession” of the trade secret, and (3) the trade secret is in danger of being destroyed or removed.

DTSA provides protections to the target of a seizure order, including requirements that the court is responsible for keeping a trade secret confidential after it has been seized, the court must schedule a hearing within seven days after the seizure order was issued, and the target of the seizure order has a civil remedy for damages in the instance of a wrongful or excessive seizure.

- **Employee Mobility:** Based on an amendment from Senator Dianne Feinstein (D-CA), the measure provides employee mobility protections. Specifically, a court may impose an injunction “to prevent any actual or threatened misappropriation” but may not “prevent a person from entering into an employment relationship.”[12] Any employment conditions must be “based on evidence of threatened misappropriation and not merely on the information the person knows.” Additionally, the court order may not “otherwise conflict with an applicable State law prohibiting restraints on the practice of a lawful profession, trade, or business.”[13]
- **Statute of Limitations:** The statute of limitations for the federal private right of action would be

- › three years, which is consistent with UTSA.[14]
- › **New Whistleblower Protections:** A bipartisan amendment offered by Senate Judiciary Committee Chairman Chuck Grassley (R-IA) and Ranking Minority Member Patrick Leahy (D-VT), which was unanimously approved on a voice vote, provide legal protection to whistleblowers in certain cases of disclosure of trade secrets to federal or state officials, as well as to counsel, for the purpose of reporting a potential violation of law, or if the trade secret is disclosed in a complaint or other filing in a legal proceeding, as long as the filing is made under seal.[15] The provision will require nondisclosure agreements to provide notice of the whistleblower protections “in any contract or agreement with an employee that governs the use of a trade secret or other confidential information.”
- › **Stronger Protections for Trade Secrets During Litigation:** The legislation builds on the protective order provision under the EEA, section 1835, by adding a new subsection that establishes new rights of trade secret owners. A court may not authorize the disclosure of trade secret information “unless the court allows the owner the opportunity to file a submission under seal that describes the interest of the owner in keeping the information confidential.” [16]
- › **Digital Protections:** The legislation contains a number of new provisions to address trade secret issues and protections in the digital era. For example, the legislation provides that any seized materials in court custody shall be secured “from physical and electronic access during the seizure and while in the custody of the court.”[17] Any seized storage medium may not be “connected to a network or the Internet without the consent of both parties” pending a full hearing.[18] A motion for encryption can filed “at any time” to “encrypt any material seized or to be seized under this paragraph that is stored on a storage medium.”[19] These protections do not exist under state law.
- › **Enhanced Criminal Penalties for Organizations:** The legislation increases the maximum penalty for an organization convicted of a criminal violation from \$5 million to “the greater of \$5,000,000 or 3 times the value of the stolen trade secret to the organization, including expenses for research and design and other costs of reproducing the trade secret that the organization has thereby avoided.”[20]
- › **Racketeer Influenced and Corrupt Organization Act (RICO) Predicate Offenses:** The legislation adds the foreign economic espionage (section 1831) and criminal theft of trade secret (section 1832) provisions as qualifying predicate offenses under the RICO.[21] In appropriate cases, prosecutors will be able to include criminal trade secret theft in RICO cases.
- › **Report on Theft of Trade Secrets Occurring Abroad:** Given concerns about the theft of trade secrets outside the United States, the legislation requires an annual report from the Attorney General addressing the scope and breadth of the problem and role of foreign governments in trade secret theft.[22]
- › **Judicial Best Practices Report:** The legislation requires the Federal Judicial Center to “develop recommended best practices for (1) the seizure of information and media storing the information; and (2) the securing of the information and media once seized.”[23]

Growing Bipartisan Support and Increasing Chances of Enactment

Currently, the trade secret reform legislation is supported by a bipartisan group of 31 senators and 109 representatives. Legislative support is building on earlier efforts. In December 2015, the Senate Judiciary Committee held the hearing Protecting Trade Secrets: the Impact of Trade Secret Theft on American

Competitiveness and Potential Solutions to Remedy This Harm.[24]

In the prior Congress, an earlier version of the DTSA[25] was reported out of the US House Committee on the Judiciary on September 17, 2014.[26] Further action on the legislation was not taken because the congressional session ended. Although it is difficult to predict when the legislation will move forward, given the increasing bipartisan support, momentum is building on the legislation and the chances of enactment are increasing.

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[1] S. 1890 was introduced by Senator Orrin Hatch (R-UT) and Senator Chris Coons (D-DE). S. 1890, 114th Cong., 1st Sess. (2015), *available at* <https://www.congress.gov/114/bills/s1890/BILLS-114s1890is.pdf>. During the Senate Judiciary Committee mark-up hearing on January 28, 2016, the authors offered an amendment in the nature of a substitute, which was unanimously accepted. S. 1890, 114th Cong., 2d Sess. (2016), *available at* <https://www.congress.gov/114/bills/s1890/BILLS-114s1890rs.xml>.

[2] H.R. 3326 was introduced by Congressman Doug Collins (R-GA) and Congressman Jerrold Nadler (D-NY). H.R. 3326, 114th Cong., 1st Sess. (2015), *available at* <https://www.congress.gov/114/bills/hr3326/BILLS-114hr3326ih.pdf>.

[3] For recent examples, *see* Trade Secret Examples Based on Recent Criminal and Civil Cases, *available at* https://www.morganlewis.com/~media/files/publication/practice%20resource/supplemental%20info/protecting%20trade%20secrets/lpg_tradesecrets_appendixb.ashx.

[4] *See, e.g.*, Economic Espionage Act, 18 U.S.C. § 1839(3) (defining trade secrets); *see also* Uniform Trade Secret Act § 1(4) (same), *available at* http://www.uniformlaws.org/shared/docs/trade%20secrets/utsa_final_85.pdf.

[5] Economic Impact of Trade Secret Theft: A Framework For Companies To Safeguard Trade Secrets And Mitigate Potential Threats, 3 (Feb. 2014), *available at* https://create.org/wp-content/uploads/2014/07/CREATE.org-PwC-Trade-Secret-Theft-FINAL-Feb-2014_01.pdf.

[6] For the UTSA, see http://www.uniformlaws.org/shared/docs/trade%20secrets/utsa_final_85.pdf. For UTSA jurisdictions, see [http://www.uniformlaws.org/LegislativeFactSheet.aspx?title=Trade Secrets Act](http://www.uniformlaws.org/LegislativeFactSheet.aspx?title=Trade%20Secrets%20Act).

[7] Fed. R. Civ. P. 45(b)(2) (“A subpoena may be served at any place within the United States”).

[8] S. 1890, § 2 (proposed § 1836(b)(1)).

[9] *Id.* (proposed § 1836(b)(2)).

[10] *Id.* (proposed § 1836(b)(2)(A)(i)).

[11] *Id.* (proposed § 1836(b)(2)(E)).

[12] *Id.* (proposed § 1836(b)(3)(A)(i)(I)).

[13] *Id.* (proposed § 1836(b)(3)(A)).

[14] *Id.* (proposed § 1836(d)).

[15] *Id.* § 7 (proposed § 1833(b)); see also amendment as offered, *available at* <http://www.judiciary.senate.gov/imo/media/doc/Leahy-Grassley1%20-%20ALB16037.pdf>.

[16] S. 1890, § 3 (proposed § 1835(b)).

[17] *Id.* § 2 (proposed § 1836(b)(2)(D)(i)).

[18] *Id.* (proposed § 1836(b)(2)(D)(ii)).

[19] *Id.* (proposed § 1836(b)(2)(H)).

[20] *Id.* § 3(a) (amending § 1832(b)).

[21] *Id.* § 3(b).

[22] *Id.* § 4.

[23] *Id.* § 6(a).

[24] For further analysis of the trade secret reform legislation, see Statement of Mark Krotoski Submitted to the US Senate Judiciary Committee for the Hearing on “Protecting Trade Secrets: The Impact of Trade Secret Theft on American Competitiveness and Potential Solutions to Remedy This Harm” (Dec. 2, 2015), *available at* <https://www.morganlewis.com/pubs/protecting-trade-secrets>.

[25] See H.R. 5233, 113th Cong., 2d Sess. (July 29, 2014), *available at* <http://www.gpo.gov/fdsys/pkg/BILLS-113hr5233ih/pdf/BILLS-113hr5233ih.pdf>.

[26] See Committee Markup Transcript of: H.R. 5233, the “Trade Secrets Protection Act of 2014” (Sept. 17, 2014), *available at* http://judiciary.house.gov/_cache/files/4d029f1e-fbf3-40e1-acdd-e555b464c984/09.17.14-markup-transcript.pdf; see also Press Release: Judiciary Committee Approves Trade Secrets Legislation (Sept. 17, 2014), *available at* http://judiciary.house.gov/index.cfm/press-releases?ContentRecord_id=316CB38D-2FE7-462A-8FCC-71205AEE2152.

