

Inside Pending Federal Trade Secrets Legislation

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Theft of trade secrets is a constant concern for many employers. Congress has listened and, over the course of this year, it has been moving forward with legislation aimed at protecting trade secrets.

Existing Law

Currently, trade secrets are largely protected by state law. The Uniform Trade Secrets Act has been adopted by a majority of states, some with minor modifications.

Federal trade secrets law is limited. Trade secrets are protected by the Economic Espionage Act, a criminal statute enforced by the U.S. Department of Justice aimed at corporate espionage by foreign governments. The DOJ brings only a handful of prosecutions under the law each year.

For private parties, federal law options are limited primarily to the Computer Fraud and Abuse Act. CAFA was not designed to protect trade secrets, but is often used in trade secrets litigation, especially where an employer alleges a departing employee improperly used its computer systems.

What's In the Bill?

Earlier this year, legislation was introduced in both the U.S. House of Representatives and U.S. Senate aimed at providing uniform, nationwide protection for trade secrets under federal law. Sens. Chris Coons, D-Del., and Orrin Hatch, R-Utah, sponsored S. 2267, the Defend Trade Secrets Act of 2014. In the House, Reps. George Holding, R-N.C., and Jerry Nadler, D-N.Y., cosponsored H.R. 5233, the Trade Secrets Protection Act of 2014.

These two bills are similar and the primary feature of each is to create a federal civil cause of action for trade secret misappropriation. Both bills substantially track the UTSA.

One significant area in which the bills depart from the UTSA is by providing for ex parte seizure orders. Under the House version, a federal court may issue an ex parte order to seize property "necessary to



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preserve evidence” or to “prevent dissemination of the trade secret” if the plaintiff can show the following things “clearly ... from specific facts”:

- injunctive relief under Fed. R. Civ. P. 65 is inadequate;
- the plaintiff will suffer "immediate and irreparable injury";
- the harm to the plaintiff outweighs the harm to both the defendant and any third parties who may be affected by the order;
- the plaintiff is likely to show both misappropriation and that the defendant is in possession of the trade secret;
- a particular description of the subject of the seizure and its location;
- the defendant would move, hide or destroy the materials if he/she/it received notice; and
- the plaintiff has not “publicized” the requested seizure.

The House bill limits any ex parte seizure order by requiring a court to: minimize disruption to the defendant; issue specific factual and legal findings; hold a hearing within seven days; and order the plaintiff to post an appropriate bond.

In addition, the House bill requires the court to take appropriate action to protect the defendant from “publicity” regarding the seizure order “by or at the behest of the person obtaining the order.” The bill also provides a cause of action for a party damaged “by reason of a wrongful or excessive seizure” under the law by which a wronged defendant can recover for lost profits, loss of good will, punitive damages and reasonable attorney’s fees.

While the ex parte seizure provision may be the most distinguishing aspect of the bill, there are other noteworthy differences between the proposed legislation and the UTSA. The House bill allows punitive damages for willful and malicious misappropriation up to three times actual damages, whereas the UTSA caps punitive damages at two times actual damages. The House bill also provides a lengthier statute of limitations: five years as compared to three years under the UTSA.

Where Does It Stand?

On Sept. 17, 2014, the House Judiciary Committee approved the Trade Secrets Protection Act. The lone amendment was submitted by Rep. Holding, the sponsor of the bill, and added language aimed at clarifying the seizure provision and addressing the liability of website operators for content provided by third parties. The Senate bill has been referred to the Senate Judiciary Committee, but neither a hearing nor legislative markup has occurred.

The sponsors of the Trade Secrets Protection Act are pushing for full House passage in late 2014, before the next Congress takes its seats in January. In response to a request for comment, Rep. Holding, stated: “The theft of trade secrets costs American businesses billions of dollars and countless jobs each year. I urge my colleagues in Congress to support this bill, which will help American businesses, both large and small, combat this constant threat that stifles innovation and inhibits job creation.”

Is It Likely to Pass?

Unlike previous attempts at federal trade secrets legislation, these bills have wide support on both sides of the political aisle — but whether they reach President Obama's desk remains to be seen. In the House, there appears to be little opposition to the bill. In addition, the legislation enjoys broad support from

members of the business community, including Microsoft Corp., 3M Co., GE Co., DuPont Co., Eli Lilly & Co. and the U.S. Chamber of Commerce.

Former congresswoman and current senior vice president at FaegreBD Consulting Mary Bono is cautiously optimistic about the bill's chances. "This is the kind of bill that should be easy for Congress to get behind." Bono said. "Members of Congress and their constituents in the business community recognize that cybersecurity is a key public policy issue and the damage caused by trade secret theft is real and substantial."

If the bill does not become law in the next few weeks it surely will be at the forefront of the agenda when the new Congress convenes in 2015. Rep. Holding has stated that he is going to reintroduce his legislation in 2015 and it is reasonable to expect the sponsors of the Senate bill to do the same. The difference next year is that Republicans will hold majorities in both the House and Senate and, as a result, the chairmen of the judiciary committees in their respective chambers — Sen. Chuck Grassley, R-Iowa, and Rep. Bob Goodlatte, R-Va. — are expected to work very closely on their agendas to take advantage of the Republican-controlled Congress. The federal trade secrets legislation, with its overwhelming industry support, should move forward in Congress in 2015.

What Does This Mean for Employers?

If the federal legislation passes, it will provide more legal options for employers pursuing trade secret misappropriation claims, but will also add complexity and additional considerations for employers in trade secret litigation.

First, the potential for ex parte seizure orders in appropriate cases would give employers an avenue for relief that goes well beyond what is currently obtainable in most UTSA jurisdictions. Indeed, even the potential for such ex parte seizures may serve as a deterrent to former employee misappropriators and competitors. However, it remains to be seen how federal courts will handle requests for ex parte seizure orders — where a judge must decide whether to issue significant relief based on the story of one party alone. Many federal judges could be wary of such orders, particularly given the potential for abuse by unscrupulous litigants.

Second, a uniform body of federal trade secrets case law may help to smooth over many of the state law variations in interpreting the UTSA, but it may also add a new layer of complexity. Uniformity has been cited by supporters as a benefit of federal legislation. It is worth noting, however, that neither the House nor the Senate bill preempts state law. Thus, plaintiffs may retain the option to proceed in state court.

Some commentators have criticized the lack of preemption — stating it will preserve the existing inconsistencies among state law interpretations of the UTSA while adding complexity by way of new federal decisions. Indeed, when proceeding under a federal trade secrets cause of action, state law still will apply with respect to legal issues central to trade secrets litigation, including the enforceability of noncompete agreements and duties arising from confidential relationships.

If the pending federal trade secrets legislation becomes law, employers will need to carefully weigh the pros and cons of proceeding in federal or state court. For example, even though federal law may provide the possibility of an ex parte seizure order, certain state jurisdictions may give faster and more desired relief. Indeed, some UTSA states allow parties to appear before a judge on a temporary restraining order the same day a complaint is filed. If the new legislation passes, it will be even more important to assess the facts and desired outcomes of a particular case in deciding how to proceed in the client's best interests.

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