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The Defend Trade Secrets Act/Trade Secret Protection Act —Finally, Federal Protection for Trade Secrets?

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Pending bipartisan legislation might finally usher trade secrets into the domain of federal intellectual property protection occupied by trademarks, patents and copyrights. Whether that is a good thing is a subject of much debate.

Proposed Legislation

In April, the proposed Defend Trade Secrets Act of 2014 (DTSA) (S. 2267) was introduced in the Senate by Chris Coons (D-Del.) and Orrin Hatch (R-Utah), followed in July by a similar House bill—the Trade Secret Protection Act of 2014 (TSPA) (H.R. 5233)—sponsored by George Holding (R-N.C.).

The TSPA would amend the Economic Espionage Act of 1996 (EEA) to create a private federal cause of action 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.” The DTSA would further extend to violations of 18 U.S.C. §§ 1831(a) and 1832(a), which involve economic espionage and trade secret theft, respectively.

The EEA, which is presently limited to criminal offenses, was invoked by the Department of Justice in only 25 trade secret theft cases in 2013.¹ The pending legislation,

¹ These cases included the prosecutions of Ji Li Huang and Xiao Guang Qi, sentenced in the Western District of Missouri for conspiring to purchase trade secrets stolen from Pittsburgh Corning Corp.; Sixing Liu, sentenced in the Dis-

trict of New Jersey for stealing thousands of electronic files relating to military technology from L-3 Communications; and Yi Liu, indicted in the Western District of New York for allegedly retaining a laptop issued by his former employer, Sprung-brett RDI, which contained trade secrets relating to technology being developed for use by the U.S. Air Force.

however, could substantially broaden the scope of federal trade secret protection. The bills resemble the Uniform Trade Secrets Act, which has been adopted in some form by 48 states since its introduction in 1979 by the National Conference of Commissioners on Uniform State Laws. Specifically, the DTSA and TSPA borrow the UTSA’s definitions of trade secret and misappropriation, while also offering largely congruent remedies for trade secret owners (e.g., affirmative and negative injunctions, damages for actual loss and unjust enrichment, reasonable royalties, punitive damages and attorney’s fees).

Advantages for Trade Secret Owners

Beyond opening the doors of federal court to non-diverse trade secret litigants, the proposed legislation stands to equip trade secret owners with new—potentially potent—legal advantages. First, the DTSA and TSPA provide for treble damages in cases involving willful or malicious misappropriation, while the UTSA only permits damages up to twice the amount awarded for actual loss and unjust enrichment in such cases. Furthermore, the bills would establish a five-year statute of limitations (run-

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ning from the date of the misappropriation's discovery), as compared to the UTSA's prescribed period of three years.

Most remarkably, the proposed legislation authorizes federal courts to issue *ex parte* orders—where necessary to prevent irreparable harm—for the preservation of evidence and the seizure of property used in the commission of a violation. Thus, trade secret owners would be afforded relief similar to that provided by the Lanham Act, which authorizes seizure orders in civil actions involving counterfeit marks. Because modern trade secret litigation often involves electronically stored data, the need to preserve evidence can be pressing. This need may be better served by the proposed federal procedure than the UTSA's provisions for preliminary injunctions and temporary restraining orders. The efficacy of the remedy, however, may depend on which bill (if any) ultimately becomes law; unlike the DTSA, the TSPA sharply limits the availability of seizure orders. For example, the TSPA requires the applicant to demonstrate clearly by specific facts that “the applicant is likely to succeed in showing that the person against whom seizure would be ordered misappropriated the trade secret, or conspired to use improper means to misappropriate the trade secrets, and is in possession of the trade secret.” Moreover, any such order must “be accompanied by an order protecting the property from disclosure by restricting the access of the applicant,” in order to “prevent undue damage to the party against whom the order has issued or others.”

Little Hope for Uniformity

Notwithstanding this divergence, the leaders of the bicameral effort have been consonant in emphasizing the need for federal law protection of trade secrets. Proponents contend that a federal scheme will produce the uniformity envisioned—but not accomplished—by the UTSA's drafters. Although the UTSA has been

widely adopted, discrepancies in states' particular codification and judicial interpretation have undermined the uniformity it contemplates. Displacing this piecemeal state law approach with a federal regime would presumably curb forum-shopping, promote certainty in litigation and allow companies to establish a single, consistent nondisclosure policy to apply in their dealings throughout the U.S.

Unfortunately, there is reason to believe that at least some of these ostensible benefits will not be realized even if the proposed legislation passes: the DTSA and TSPA both expressly provide that they would not preempt any other provisions of law, thereby leaving current state law causes of action intact. In fact, because the UTSA purports to displace state common law remedies for misappropriation, the bills may open federal courts to various state law claims that are barred in the respective state courts. Thus, the pending legislation's passing could be a Pyrrhic victory in the effort to harmonize trade secret law.

Several further criticisms leveled against the bills are expounded in a recent open letter to Congress. The letter was co-authored by David S. Levine of the Elon University School of Law and Sharon Sandeen of the Hamline University School of Law, and signed by 29 other professors of intellectual property law.² Among other objections, Levine and Sandeen suggest that the legislation would be highly susceptible to anticompetitive misuse, adversely affect business collaboration and labor mobility, and heighten the risk of accidental trade secret disclosure.

² Professors' Letter in Opposition to the “Defend Trade Secrets Act of 2014” (S. 2267) and the “Trade Secrets Protection Act of 2014” (H.R. 5233) (Aug. 26, 2014), available at <http://cyberlaw.stanford.edu/files/blogs/FINAL%20Professors%27%20Letter%20Opposing%20Trade%20Secret%20Legislation.pdf>.

Even so, the concerns may be insufficient to derail the bills, which are both presently sitting in their respective judiciary committees. The legislation has garnered bipartisan support and appears to face no serious opposition in either chamber of Congress. Moreover, several influential corporations have lobbied in favor of a federal civil claim for misappropriation, including Boeing, Microsoft, General Electric and DuPont. The National Association of Manufacturers and U.S. Chamber of Commerce have also endorsed the effort.

Following months of relative inactivity, the legislation has been subject to promising movement in recent weeks. On Sept. 4, staffers for the Senate Judiciary Committee were briefed by industry representatives and academics regarding the DTSA in anticipation of legislative action. On Sept. 17, the TSPA was passed by the House Judiciary Committee, which voted to favorably report the bill to the full House of Representatives.

And Republicans have signaled that trade secret protection will be a priority should they gain control of the chamber following November's elections. In outlining the agenda Oct. 21, Hatch, who serves as chairman of the Senate Republican High-Tech Task Force and is a senior member of the Senate Judiciary Committee, said it was “past time” for Congress to enact legislation allowing U.S. companies to protect their trade secrets in federal court. “Trade secrets, such as customer lists, formulas and manufacturing processes, are an essential form of intellectual property,” Hatch said in remarks prepared for an event at Overstock.com Inc.'s corporate office in Salt Lake City. “Yet, trade secrets are the only form of U.S. intellectual property where misuse does not provide its owner with a federal private right of action. Currently, trade secret owners must rely on state courts or federal prosecutors to protect their rights.”