

Federal Cause of Action For Trade Secret Theft On The Horizon

In the wake of numerous reports of cyber security threats, Congress has introduced two bills intended to create a private cause of action for trade secret misappropriation under federal law. Senators Christopher Coons (D-DE) and Orin Hatch (R-UT) introduced the Defend Trade Secrets Act of 2014 (the "2014 DTSA") in April of this year, and Representatives George Holding (R-NC), Jerrold Nadler (D-NY), Howard Coble (R-NC), Hakeem Jeffries (D-NY) Steve Chabot (R-OH) and John Conyers (D-MI) introduced the Trade Secrets Protection Act of 2014 (the "2014 TSPA") at the end of July.



By Suzette M. Marteny

The proposed legislation would supplement and expand existing state laws¹ and the federal Economic Espionage Act of 1996² (which criminalizes trade secret misappropriation but provides no civil remedy) and provide a unified body of law with expanded remedies under which victims of trade secret misappropriation may avail themselves. The most significant differences between the proposed legislation and the status quo are the provisions for ex parte seizure orders, the availability of treble damages

and a five-year statute of limitations.

Of course, creating new remedies is not without controversy. Critics of the legislation say the bills lack specificity as currently drafted, and there is ongoing debate about the need for federal, civil remedies when there may be adequate remedies under state law. Since the House and Senate introduced the proposed legislation only a few months ago, it is unlikely that either will become law in the relatively near future.

Trade Secret Misappropriation Under The Uniform Trade Secrets Act

Trade secret law is widely misunderstood, even among seasoned practitioners, because it is often viewed out of context. At its core, trade secret law is a codification of commercial ethics that protects against using "reprehensible means of learning another's secret."³ Viewed in this context, it makes sense that a "trade secret" can be almost anything—"a formula, pattern, compilation, program, device, technique, or process"—that has actual or potential value because it is not generally known or readily ascertainable so long the owner uses reasonable measures to maintain its secrecy. Importantly, there is no requirement that a trade secret constitute new, useful, non-obvious information or even that a trade secret be original. In fact,

in the Eleventh Circuit, a unique combination of *publicly available* information can constitute a trade secret if the combination adds value to the information.⁴ It is sufficient that the information be not generally known or readily ascertainable and that it provide the owner with a competitive advantage.

Presently, civil remedies for misappropriation of trade secrets fall under state laws, the vast majority of which have adopted the Uniform Trade Secrets Act ("UTSA")⁵, and include:

- Injunctive relief, generally in the form of a preliminary injunction or temporary restraining order;
- Money damages in the forms of actual damages, unjust enrichment or a reasonable royalty;
- Exemplary damages not exceeding twice the award of money damages for wilful misappropriation;
- Attorneys' fees in certain circumstances.

Under UTSA, there is no provision for ex parte relief and claims are subject to a three-year statute of limitation.

Proposed Expansion of The Economic Espionage Act of 1996

The Economic Espionage Act of 1996, 18 U.S.C. § 1831, criminalizes the

theft of trade secrets if the offense is committed with the knowledge that the information stolen is a trade secret and with the intent that the theft will benefit a foreign entity. Section 1832 provides for criminal penalties when the offender knowingly steals trade secrets with the intent to benefit anyone other than the owner.

Both the DTSA and the TSPA propose to expand on the current provisions of the Economic Espionage Act to create civil remedies for trade secret theft. As drafted, the DTSA would create a private cause of action for violations of §§ 1831-1832, and create a cause of action for misappropriations of trade secrets that related to products or services used in interstate commerce.⁶ The DTSA also includes a number of equitable remedies not currently available under state law, including the ability for a plaintiff to obtain, upon submission of an affidavit or verified complaint, ex parte orders for preservation of evidence relating to the theft, including “seizure of any property, in any manner or part, to commit or facilitate the commission”⁷ of the theft of trade secrets. This type of broad, equitable relief based solely on an accuser’s affidavit is fraught with due process concerns, particularly in a civil action where monetary relief is available.

The TSPA contains similar language to the DTSA, except it includes some procedural safeguards with respect to ex parte seizure orders not found in the TSPA. Specifically, section (2)(A)(i) of the TSPA provides that courts may not grant ex parte seizure orders except in instances where the “specific facts” clearly show: (1) the putative defendant would “evade, avoid or otherwise not comply with” a preliminary injunction; (2) there is immediate danger of irreparable harm unless the property used in the trade

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secret theft is seized; (3) the benefit to the party seeking the order outweighs any harm to the defendant; (4) there is a substantial likelihood of success on the merits; (5) the location of and the property to be seized is described with reasonable particularity; (6) the putative defendant would “destroy, move, hide or otherwise make sure matter inaccessible to the court” if provided with notice; and (7) the party seeking the order must not have publicized the request for seizure.⁸

In addition to the expanded equitable remedies, both the DTSA and the TSPA permit courts to award treble damages for wilful misappropriation (as opposed to double damages under UTSA) and sets a five-year the statute of limitations.

Conclusion

The TSPA and DTSA promise to create a civil cause of action for trade secret theft with enhanced equitable remedies, treble damages and a longer statute of limitation than is provided under state law. Critics say the bills lack specificity and procedural safeguards, and question the need for a federal remedy in light of existing protections under state law. The reality is that the proposed legislation is in its infancy, and although it is unlikely that we will see a civil remedy for trade secret theft in the near future, it is on the horizon.

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Footnotes

¹ Forty-seven states have adopted the Uniform Trade Secrets Act; the remaining states, Texas, Massachusetts and New York, have statutory or common law schemes protecting trade secrets.

² 18 U.S.C. § 1832.

³ AvidAir Helicopter Supply, Inc. v. Rolls-Royce Corp., 663 F.3d 966, 973 (8th Cir. 2011).

⁴ Penalty Kick Mgmt. Ltd. V. Coca Cola Co., 318 F.3d 1284, 1291 (11th Cir. 2003).

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⁶ S.2267, 113th Cong. (2014).

⁷ *Id.* at (2)(a)(2)(A).

⁸ H.R. 5233, 113th Cong. § 2 (2014).