



September 2014

Follow @Paul\_Hastings



# *Trade Secrets Protection Continues to be a High Priority for Lawmakers: House Judiciary Committee Approves Bill Creating a Federal Civil Remedy for the Misappropriation of Trade Secrets*

BY [THE INVESTIGATIONS AND WHITE COLLAR DEFENSE GROUP](#)

Recognizing that “[t]rade secrets are an increasingly important form of intellectual property that have become more vulnerable to theft,”<sup>1</sup> on September 17, 2014, the House Judiciary Committee approved the Trade Secrets Protection Act, H.R. 5233 (the “Bill”). The Bill would create a federal civil remedy for trade secrets misappropriation and, according to House Judiciary Committee Chairman Bob Goodlatte (R-VA), take “a positive step toward improving our trade secrets laws” by building on recent legislation, namely the Economic Espionage Act (“EEA”).<sup>2</sup> The EEA criminalizes the theft of trade secrets and conspiracies or attempts to steal trade secrets, but it does not currently provide a private civil action for injured parties. If it becomes law, the Bill would amend the EEA to permit companies and individuals to assert statutory claims in federal court to protect their trade secrets.

## **General Background**

Trade secrets are generally defined as commercially valuable information that is not generally known or readily ascertainable to the public, but which is subject to reasonable measures to maintain confidentiality. Trade secrets may include scientific formulas or algorithms, strategic plans and business information, and manufacturing techniques or processes.

Each of the 50 states has its own trade secrets law, although 48 states have adopted some version of the Uniform Trade Secrets Act (“UTSA”). The UTSA aimed to codify and harmonize standards regarding the misappropriation of trade secrets, but because of the state-by-state differences in trade secrets laws (and the judicial interpretations of the same), and concerns about forum-shopping and choice-of-law issues, legislators and commentators have recommended that Congress consider amending the EEA to provide a federal private right of action for trade secret theft.

## **The Current Scope of the Economic Espionage Act**

The current federal statutory framework under the EEA provides for criminal prosecution and penalties for trade secret theft.<sup>3</sup> For instance, Section 1831 of the EEA criminalizes the knowing theft, duplication, or receipt of trade secrets for the benefit of a foreign government or instrumentality.<sup>4</sup>

Given the Obama Administration's focus on "stamping out" intellectual property theft,<sup>5</sup> Section 1831 was amended on January 14, 2013, when President Obama signed into law the Foreign and Economic Espionage Penalty Enhancement Act (the "Enhancement Act"). With respect to individuals, the Enhancement Act increased fines from \$500,000 to \$5,000,000. Individuals also may be imprisoned for up to 15 years, or may be subject to a fine and/or imprisonment. Organizational defendants, on the other hand, may be fined up to \$10,000,000 or three times the value of the stolen trade secret to the organization (including research and development and other avoided costs).

Generally, Section 1832 of the EEA criminalizes the knowing misappropriation of trade secrets, as well as attempts and conspiracies to misappropriate trade secrets.<sup>6</sup> The scope of Section 1832 was amended pursuant to the Theft of Trade Secrets Clarification Act ("Clarification Act"), which was signed into law by President Obama on December 28, 2012. In response to the Second Circuit's decision in *United States v. Aleynikov*, 676 F.3d 71 (2d Cir. 2012), the Clarification Act expanded the scope of Section 1832 to include products or processes that may be used, or intended for use, in interstate or foreign commerce (*e.g.*, source code, trading algorithms, etc.). Violations of Section 1832 may result in fines and/or imprisonment of up to 10 years for individuals, and fines of up to \$5 million, restitution, and/or forfeiture of ill-gotten gains for organizations.

These developments demonstrate the commitment of policymakers and law enforcement personnel to strengthening penalties, enhancing deterrence, and protecting key intellectual property assets. Many lawmakers and commentators, however, believe that federal criminal law alone is insufficient. They argue, for example, that trade secrets laws may vary from state-to-state and that federal civil law is likely to be better suited to facilitate discovery across state and national boundaries and to serve defendants or witnesses.

## **The Trade Secrets Protection Act**

Because trade secrets protection is currently accomplished through a patchwork system of federal criminal laws and state civil statutes, the House and Senate have considered bills that would create a federal civil cause of action for the misappropriation of trade secrets, including for products or services that are used in, or intended for use in, interstate or foreign commerce. The Bill—introduced by Congressman George Holding (R-NC) in the House as the Trade Secrets Protection Act—has received bipartisan support. In proposing the Bill, Ranking Member John Conyers (D-MI) commented that "[t]rade secrets are fundamental to the success of any business" and that the Bill would "create a civil cause of action and allow companies to enforce their rights in federal court[.]"<sup>7</sup>

The Bill adopts the protections of the UTSA such as, for example, rendering unlawful the acquisition, disclosure, or use of trade secrets and defining potential remedies to include injunctive relief, damages, and attorneys' fees. The Bill permits litigants to seek reasonable royalties and exemplary damages of up to three times the economic damages. The Bill further extends the relevant statute of limitations to five years (as is the case for most federal offenses). Moreover, the Bill creates *ex parte* seizure rights, meaning litigants may seek an order seizing property necessary to preserve evidence or to prevent the dissemination of trade secrets that are the subject of the action. Given its bipartisan support, on September 17, 2014, the House Judiciary Committee approved the Bill by voice vote.

The Defend Trade Secrets Act (S. 2267)—introduced in the Senate by Senators Chris Coons (D-DE) and Orrin Hatch (R-UT)—is a companion to the Bill and is materially similar to the House version. Senators Coons and Hatch have touted their proposed bill as critical to protecting American intellectual property. It has been endorsed by the National Association of Manufacturers, the U.S. Chamber of

Commerce, and several companies. On May 13, 2014, the Senate Judiciary Committee held a hearing on the bill, but it has not yet been put to a vote.

## **Potential Ramifications**

The protection of trade secrets continues to be a high priority for law and policymakers, law enforcement personnel, and the Administration. Within the past couple of years, Congress has passed legislation in connection with criminal trade secrets offenses, such as the Enhancement Act and the Clarification Act.

The House has taken a critical step by approving the Bill, which would permit individuals or corporations to pursue trade secret claims in federal court under state or federal law. Commentators have suggested that, if the Bill becomes law, it would (i) build on the EEA by creating a uniform standard for trade secret misappropriation cases, and (ii) ensure consistency among the various types of intellectual property, like copyrights, patents, and trademarks, each of which is covered by federal law.

The Senate has not yet voted on its proposed trade secrets legislation. But, it will be important to continue to monitor these developments going forward.

◇ ◇ ◇

*Litigation partner Thomas P. O'Brien, and associates Daniel Prince and Bridget A. Gordon contributed to this alert.*

# STAY CURRENT

*If you have any questions concerning these developing issues, please do not hesitate to contact any of the following Paul Hastings lawyers:*

## Atlanta

Walter E. Jospin  
1.404.815.2203  
[walterjospin@paulhastings.com](mailto:walterjospin@paulhastings.com)

Paul Monnin  
1.404.815.2138  
[paulmonnin@paulhastings.com](mailto:paulmonnin@paulhastings.com)

## Chicago

Mark D. Pollack  
1.312.499.6050  
[markpollack@paulhastings.com](mailto:markpollack@paulhastings.com)

Eric Sussman  
1.312.499.6060  
[ericsussman@paulhastings.com](mailto:ericsussman@paulhastings.com)

## Houston

Samuel W. Cooper  
1.713.860.7305  
[samuelcooper@paulhastings.com](mailto:samuelcooper@paulhastings.com)

## Los Angeles

Joshua G. Hamilton  
1.213.683.6186  
[joshuahamilton@paulhastings.com](mailto:joshuahamilton@paulhastings.com)

Thomas P. O'Brien  
1.213.683.6146  
[thomasobrien@paulhastings.com](mailto:thomasobrien@paulhastings.com)

William F. Sullivan  
1.213.683.6252  
[williamsullivan@paulhastings.com](mailto:williamsullivan@paulhastings.com)

Thomas A. Zaccaro  
1.213.683.6285  
[thomaszaccaro@paulhastings.com](mailto:thomaszaccaro@paulhastings.com)

## New York

Kenneth M. Breen  
1.212.318.6344  
[kennethbreen@paulhastings.com](mailto:kennethbreen@paulhastings.com)

Maria E. Douvas  
1.212.318.6072  
[mariadouvas@paulhastings.com](mailto:mariadouvas@paulhastings.com)

Palmina M. Fava  
1.212.318.6919  
[palminafava@paulhastings.com](mailto:palminafava@paulhastings.com)

Douglas H. Flaum  
1.212.318.6259  
[douglasflaum@paulhastings.com](mailto:douglasflaum@paulhastings.com)

Gary F. Giampetruzzi  
1.212.318.6417  
[garygiampetruzzi@paulhastings.com](mailto:garygiampetruzzi@paulhastings.com)

Douglas Koff  
1.212.318.6772  
[douglaskoff@paulhastings.com](mailto:douglaskoff@paulhastings.com)

Barry G. Sher  
1.212.318.6085  
[barrysher@paulhastings.com](mailto:barrysher@paulhastings.com)

John P. Nowak  
1.212.318.6493  
[johnnowak@paulhastings.com](mailto:johnnowak@paulhastings.com)

## Palo Alto

Peter M. Stone  
1.650.320.1843  
[peterstone@paulhastings.com](mailto:peterstone@paulhastings.com)

## Washington, D.C.

Kirby D. Behre  
1.202.551.1719  
[kirbybehre@paulhastings.com](mailto:kirbybehre@paulhastings.com)

Amy K. Carpenter-Holmes  
1.202.551.1977  
[amycarpenter-holmes@paulhastings.com](mailto:amycarpenter-holmes@paulhastings.com)

Nathaniel B. Edmonds  
1.202.551.1774  
[nathanieledmonds@paulhastings.com](mailto:nathanieledmonds@paulhastings.com)

Michael N. Levy  
1.202.551.1983  
[michaellevy@paulhastings.com](mailto:michaellevy@paulhastings.com)

Morgan J. Miller  
1.202.551.1861  
[morganmiller@paulhastings.com](mailto:morganmiller@paulhastings.com)

Michael L. Spafford  
1.202.551.1988  
[michaelspafford@paulhastings.com](mailto:michaelspafford@paulhastings.com)

<sup>1</sup> Statement by House Judiciary Committee Chairman Bob Goodlatte (R-VA), Ranking Member John Conyers (D-MI), Chairman of the House Judiciary Subcommittee on Courts, Intellectual Property and the Internet Howard Coble (R-NC), Ranking Member of the House Judiciary Subcommittee on Courts, Intellectual Property and the Internet Jerrold Nadler (D-NY), and Rep. George Holding (R-NC), dated Sep. 17, 2014.

<sup>2</sup> The Trade Secrets Protection Act: Hearing on H.R. 5233 Before the H. Comm. on the Judiciary, 113th Cong. 5 (2014) (statement of Rep. Robert Goodlatte, Chairman, H. Comm. on the Judiciary).

---

<sup>3</sup> In addition to other laws, the federal Computer Fraud and Abuse Act (“CFAA”), 18 U.S.C. § 1030 *et seq.*, may implicate certain trade secrets disputes, particularly where, for example, the claims relate to the unauthorized use of a computer to obtain trade secret information. In those instances, the CFAA provides for criminal and civil remedies.

<sup>4</sup> 18 U.S.C. § 1831.

<sup>5</sup> See, *e.g.*, Mythili Raman, Former Acting Assistant Attorney General, Criminal Division, United States Department of Justice, “Sinovel Corporation and Three Individuals Charged in Wisconsin with Theft of ASMC Trade Secrets,” dated June 27, 2013.

<sup>6</sup> 18 U.S.C. § 1832(a)(4)-(5).

<sup>7</sup> Statement by Ranking Member John Conyers (D-MI), dated July 29, 2014.