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"Obama Out"? Not So Fast. President Obama Presented With Legislation that Would Create a Federal Civil Remedy for the Misappropriation of Trade Secrets

By Daniel Prince, Jong Han Kim, Jeff A. Pade & Mark D. Pollack

Approximately a month after being passed by the United States Senate, on April 27, 2016, the United States House of Representatives passed the Defend Trade Secrets Act ("DTSA"). The legislation, presented to President Obama on April 29, 2016, is intended to take "a positive step toward improving trade secrets laws" by amending the Economic Espionage Act ("EEA") to permit companies and individuals to assert civil claims in federal court to seek relief for the misappropriation of trade secrets.[1]

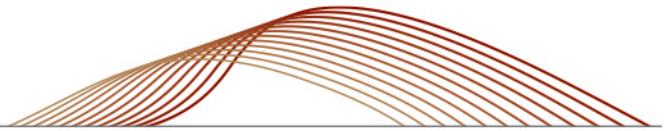
Background

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.

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.[2] 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.[3] That section also criminalizes attempts and conspiracies. Given the Obama Administration's focus on "stamping out" intellectual property theft,[4] 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; it also punishes attempts and conspiracies to misappropriate trade secrets.[5] 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.). Penalties for violating Section 1832 include a fine and/or imprisonment of up to 10 years for individuals, whereas organizations may be subject to a $5 million fine, restitution, and/or forfeiture of ill-gotten gains.

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.

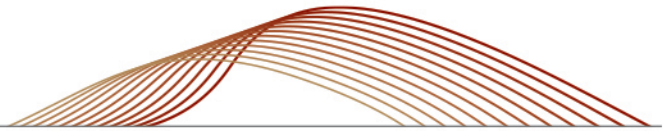
The Defend Trade Secrets Act

Because trade secrets protection is currently accomplished through a patchwork system of federal criminal laws and state civil statutes, there has been strong bipartisan support for legislation 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 DTSA, introduced in the Senate by Senators Chris Coons (D-DE) and Orrin Hatch (R-UT), has been touted as critical to protecting American intellectual property. Indeed, the legislation has been endorsed by the National Association of Manufacturers, the U.S. Chamber of Commerce, and several companies.

If enacted, the legislation would render unlawful, *inter alia*, the acquisition, disclosure, or use of trade secrets, and would apply to all acts of trade secrets misappropriation after the date of enactment. Unlike the UTSA, the DTSA does not expressly preempt other causes of action that might arise under the same facts, and it also does not preempt state trade secrets rights. Potential remedies under the DTSA include injunctive relief, damages, and attorneys' fees (in cases involving bad faith). Litigants also may seek reasonable royalties and exemplary damages for willful misappropriation (with the opportunity for double damages).

Moreover, the legislation would create *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. This remedy is to be available only in "extraordinary circumstances" if a court finds, for example, that another form of equitable relief would be inadequate, immediate and irreparable injury would occur if seizure is not ordered, the harm to the petitioner of denying the application outweighs the harm to the legitimate interests of the person/entity against whom/which seizure would be ordered, and the applicant is likely to prevail on the merits. To prevent abuse of this extraordinary remedy, the legislation provides that a party subject to seizure can seek damages as redress if the seizure is later found to have been wrongful.



Further, to encourage investigation of potential illegal activity, the DTSA includes a "whistleblower" provision, which offers immunity from liability for individuals who disclose acts of misappropriation for the purpose of reporting or investigating a suspected violation of the law.

Potential Ramifications

As evidenced, 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.

Both houses of Congress have now taken an important step in approving legislation that (i) would permit individuals or corporations to pursue trade secret claims in federal court under state or federal law, and (ii) further foster opportunities for cooperation between aggrieved parties and government officials. Commentators have suggested, given the Administration's focus on intellectual property matters, that President Obama would be keen to enact the pending legislation. If so, the DTSA would build on the EEA by creating a uniform standard for trade secret misappropriation cases and ensure consistency among the various types of intellectual property, like copyrights, patents, and trademarks, each of which are covered by federal law.

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Daniel Prince is a partner in the firm's Los Angeles office and has significant experience representing clients in cross-border investigations and litigation involving trade secrets, fraud, and corruption.

Jong Han Kim is a partner in, and chair of, the firm's Seoul office, where he handles a range of matters involving complex cross-border litigation involving Korean companies.

Jeff A. Pade is a partner in the firm's Washington, DC office, where he handles a range of intellectual property matters, including trade secrets and patent litigation.

Mark D. Pollack is a partner in the firm's Chicago office and a former Assistant United States Attorney.

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

Chicago

Mark D. Pollack
1.312.499.6050
markpollack@paulhastings.com

Seoul

Jong Han Kim
82.2.6321.3801
jonghankim@paulhastings.com

Los Angeles

Daniel Prince
1.213.683.6169
danielprince@paulhastings.com

Washington, D.C.

Jeff A. Pade
1.202.551.1814
jeffpade@paulhastings.com

[1] House Judiciary Committee Transcript at 5:68-72, dated Sep. 17, 2014 (Statement by House Judiciary Committee Chairman Bob Goodlatte (R-VA)).

[2] 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.

[3] 18 U.S.C. § 1831.

[4] *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. *See also, e.g.,* Randall C. Coleman, Asst. Director of the FBI's Counterintelligence Division, Statement to the Senate Judiciary Committee, Subcommittee on Crime and Terrorism ("Fighting economic espionage and theft of trade secrets form U.S.-based companies is a top priority of the FBI's Counterintelligence Division.").

[5] 18 U.S.C. § 1832(a)(4)-(5).