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When the Best Defense is a Federal Cause of Action: Trade Secret Owners May Soon Have a Federal Cause of Action for Trade Secret Misappropriation

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Earlier this month, the U.S. Senate unanimously passed bill S. 1890, the Defend Trade Secrets Act of 2016 (DTSA). If enacted, the DTSA will create a federal cause of action for trade secret misappropriation, providing protection similar to that afforded to other forms of intellectual property. An identical bill, H.R. 3326, has been sent to the House to be considered in the coming weeks.

Trade secrets cover a vast array of intellectual property, including customer lists, formulas, algorithms, software codes, unique designs, industrial techniques, and manufacturing processes. On an annual basis, trade secret theft amounts to hundreds of billions of dollars' worth of economic loss for U.S. companies. Once a trade secret is leaked to the public, its legal protection ceases to exist.

Currently, federal protection for trade secrets is limited to a criminal offense under the Economic Espionage Act of 1996 for theft by foreign nationals. Senator Orrin Hatch, R-Utah, the main supporter of the bill, explained on the Senate floor earlier this month that this degree of protection is insufficient. He stressed that it does not extend to many instances where misappropriation occurs and relies exclusively on the "thinly stretched resources" of the U.S. Department of Justice for investigation and prosecution. In fact, as Senator Hatch noted on the Senate floor, the Justice Department typically considers only those cases with more than \$100,000 in damages, resulting in the prosecution of only about 300 defendants in the last 20 years. In addition to the insufficient federal protection, state law often falls short as well when it comes to protecting trade secrets. Since the majority of businesses today operate in interstate commerce, trade secret owners are left to navigate a vastly disparate body of state law, with individual idiosyncrasies that may result in fatal delays. This variation in state law thereby increases the need for uniformity on a federal level for trade secret protection.

The DTSA, if enacted, would amend the Economic Espionage Act to provide a federal cause of action to allow trade secret owners to file civil actions in U.S. district courts for trade secret theft, provided the trade secret is "related to a product or service used in, or intended for use in, interstate or foreign commerce." In addition, under the DTSA, an owner may request that the court issue an order providing for the seizure of property if necessary to prevent the

propagation and dissemination of the trade secret during the pendency of the action. To help prevent trade secret owners from leveraging the seizure authority for anti-competitive purposes, extraordinary circumstances must exist. Furthermore, the owner must establish, in summary, trade secret ownership, misappropriation or conspired misappropriation, and personal harm that outweighs any harm to the accused party or third parties if the seizure order is granted.

Senator Hatch also noted that the bill allows employees to change jobs “without fear of being wrongfully charged with trade secret theft.” The bill expresses Congress’ sense that a balance must be struck, whereby the law prevents or remedies misappropriation, while avoiding undue interference with third party businesses and the legitimate interests of the party accused of wrongdoing. With this objective in mind, the bill incorporates associated protection for the accused party and related third parties. In addition to the conditions for granting a seizure order, as delineated in the paragraph above, the bill requires that the court issuing the order take “appropriate action” to protect the accused party from publicity instigated by the owner or at the owner’s request. Furthermore, as one of several conditions related to the issuance of the order, the owner must provide “adequate security,” as determined by the court, “for the payment of damages that any person may be entitled to recover as a result of a wrongful or excessive seizure or wrongful or excessive attempted seizure...” Finally, the bill creates a cause of action against the owner requesting the seizure for situations in which an accused party or third party suffers damage as a result of a wrongful or excessive seizure.

This legislation, almost two years in the making, has garnered widespread bipartisan support, as well as endorsement from over 50 companies and associations in a wide array of sectors, including leaders in the fields of technology, life sciences, manufacturing, energy, automotive, agricultural, and telecommunications. The bill has also enjoyed widespread support from public news sources, touting its potential to fuel innovation and protect against continued widespread economic loss in the U.S. private sector. If the bill passes the House, commentators expect that it will be quickly signed into law in light of a recent White House policy statement indicating its strong support for a “more uniform, reliable, and predictable way [for businesses] to protect their valuable trade secrets anywhere in the country.” Senator Hatch noted the fine line that must be struck to simultaneously gain support from both the high-tech as well as the life science industries and is confident that the DTSA strikes the right balance and will “right an inequity” that U.S. businesses have long been facing.