

## CLIENT ALERT

### Consensus Grows as Congress Continues to Refine Its Efforts to Create a Federal Civil Cause of Action For Certain Trade Secret Theft

May.12.2014

On April 29, 2014, Senators Hatch & Coons introduced the Defend Trade Secrets Act of 2014, the third bill in as many years to propose a federal civil cause of action for trade secret misappropriation by amending the Economic Espionage Act. This latest attempt, which closely resembles the [2012 bill](#) (also co-sponsored by Senator Coons), includes the following provisions:

- Gives federal courts original but non-exclusive jurisdiction over trade secret theft covered by the Economic Espionage Act.
- Creates a uniform standard for such trade secret misappropriation.
- Permits an ex parte order seizing and preserving evidence that mimics trademark law.
- Provides for injunctions and damages, including reasonable royalties.

The bill is endorsed by the National Association of Manufacturers, the U.S. Chamber of Commerce and several Fortune 500 U.S. based companies. Unlike its predecessors, the Bill appears to have significant momentum.

#### 1. Federal Jurisdiction Over Trade Secret Theft

The Bill gives federal courts original jurisdiction over trade secret theft that involves foreign and domestic espionage as well as goods in interstate commerce. The sponsors of the Bill say that federal jurisdiction is necessary because state trade secret laws are not sufficiently effective against foreign theft, and the variation between states prevents companies from crafting consistent policies. Federal courts, they also say, are better suited to working across state and national boundaries to facilitate discovery, serve defendants or witnesses, or prevent a party from leaving the country.

Critics of the Bill say that it does not go far enough in covering misappropriation outside national boundaries when it targets the United States, but supporters say this Bill gives the federal courts full jurisdictional authority to the boundaries set forth in the Constitution.

Like U.S. trademark law, which does not preempt common-law or state causes of action for trademark infringement, this bill would not preempt state trade secret laws, and does not establish federal courts as the exclusive forum for these disputes. So even if this Bill becomes law, companies will still see suits filed in state courts under state-specific trade secret statutes.

#### 2. A Uniform Standard

The Bill creates a uniform standard for trade secret theft by defining *misappropriation* and *improper means*. Misappropriation covers two basic acts: (1) acquisition by someone who knows or should know that the trade secret was acquired by improper means or (2) disclosure without consent by a person who either acquired the trade secret by improper means, or had objective

knowledge that the trade secret was acquired by improper means. Misappropriation also includes disclosure by a person who knew or had reason to know that the secret was acquired by accident or mistake. Improper means includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, and espionage through electronic or other means. The definition explicitly excludes reverse engineering and independent derivation.

### **3. Ex Parte Seizure and Preservation of Evidence**

The Bill's provision for ex parte seizure and preservation of evidence addresses the growing problem facing companies who seek to enforce trade secret laws against misappropriators who abscond with secrets and evidence overseas. Under this provision, the court may seize any property used to facilitate the commission of trade secret theft. The ex parte application requires an affidavit or verified complaint—meaning that a company must make sworn allegations of theft and irreparable harm. The application procedure also incorporates provisions of the Lanham Act's procedure for seizing goods using a counterfeit mark—including requiring adequate security and notice to the U.S. Attorney for the applicable judicial district.

### **4. Remedies Draw From Patent Law**

The Bill provides for injunctions and damages, including unjust enrichment and reasonable royalties. Reasonable royalties, which are also available under patent law, can be direct damages, or the court may award them where an injunction would be inequitable. Treble damages are permitted where the misappropriation is found to be willful or malicious. Willful and malicious misappropriation can also trigger liability for attorney's fees, as can a bad faith claim of trade secret misappropriation, a bad-faith motion to terminate an injunction, or a bad faith opposition to such a motion.

\* \* \*

Advocates have been working to pass this legislation since 2008. The missing piece was strong bi-partisan support, which proponents say is finally in place. This support, together with endorsements from trade groups and corporations, is feeding its proponents' optimism that the latest attempt to federalize some trade secret protection may succeed, or at least make it out of committee.

For more information, please contact the professional(s) listed below, or your regular Crowell & Moring contact.

#### **Mark A. Klapow**

Partner – Washington, D.C.  
Phone: +1 202.624.2975  
Email: [mklapow@crowell.com](mailto:mklapow@crowell.com)

#### **Stephen M. Byers**

Partner – Washington, D.C.  
Phone: +1 202.624.2878  
Email: [sbyers@crowell.com](mailto:sbyers@crowell.com)