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Trade Secret Legislation May Increase Infringement Claims and Lead to a Private Right of Action

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Congress recently took new steps to protect trade secrets, which are generally defined as all forms or types of financial, business, scientific, technical, economic, or engineering information that the owner has taken reasonable measures to keep secret and which derive independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, the public. Recent Congressional legislation designed to combat trade secret misappropriation expands the Economic Espionage Act of 1996 (EEA) and increases penalties for certain violations. This recent legislation may increase infringement referrals to and enforcement by the Department of Justice (DOJ). Moreover, Congress has momentum on trade secret issues that could generate additional legislation establishing a federal private right of action under the EEA in the future. The following summarizes the key changes from the recent legislation and comments on the implications of the recent developments.

Key Changes to the EEA

Purpose: The EEA was enacted with the stated purpose of filling gaps in the federal law and promoting national and economic security in the high-technology information age. The statute reflects Congress's recognition that proprietary information is essential to economic competitiveness and that it will only continue to increase in value. The EEA establishes two separate but related offenses.

Economic espionage: Section 1831 outlaws wrongfully copying or otherwise controlling trade secrets with the intent to benefit a foreign government, instrumentality, or agent. In response to mounting evidence that industrial espionage against major US corporations is accelerating, Congress recently passed the Foreign and Economic Espionage Penalty Enhancement Act of 2012 (Penalty Enhancement Act), which President Obama signed into law on January 14, 2013. The Penalty Enhancement Act increases the maximum penalties for economic espionage for both individuals and companies – individuals may be fined up to $5,000,000, and companies may be fined either $10,000,000 or up to three times the value of the stolen trade secret. The law also requires the United States Sentencing Commission to review whether it should amend the sentencing guidelines for violations of section 1831, which currently authorize jail sentences of up to 15 years.

Trade secret theft: Section 1832 targets the misappropriation or theft of trade secrets with the intent to convert the information to the economic benefit of anyone other than the owner. On December 28, 2012, President Obama signed into law the Theft of Trade Secrets Clarification Act of 2012 (Clarification Act), which expands section 1832 to cover trade secrets "related to a product or service used in or intended for use in interstate or foreign commerce." Congress passed the law with near-unanimous support in late 2012 in order to nullify the Second Circuit's controversial ruling in *United States v. Aleynikov*, 676 F.3d 71 (2nd Cir. 2012), where the court concluded that the original section 1832 only applied to products intended to be placed in interstate or foreign commerce.

Implications for Businesses

Broadened scope invites increased referrals and enforcement: The Clarification Act expands section 1832 in two significant ways. First, section 1832 now covers trade secrets in connection with the provision of services. Second, it also now applies to trade secrets related to products or services that are (i) being developed and prepared for sale, or (ii) have already entered the marketplace. While it is unclear how broadly the courts will interpret the relationship requirement, Congress clearly intended to extend section 1832 coverage to trade secrets regarding *purely internal* business operations or tools associated with products or services in order to preclude employees from stealing information that is then used to start competing ventures. Courts may interpret the statute broadly to include information about internal matters that has an attenuated connection to products or services at early stages of development. This could create pitfalls for companies that continue to collect information about

competitor operations, especially companies that outsource such research to third parties who gather the information without direct supervision or control. The new law could also lead to companies making broader interpretations and thereby referring a greater number of alleged violations to the DOJ for investigation. Federal prosecutors may also investigate and enforce alleged EEA violations more aggressively because the Clarification and Penalty Enhancement Acts were passed by Congress with near-unanimous bipartisan support.

Private right of action: With this recent momentum in Congress on trade secret issues, there could be further legislation establishing a private right of action under the EEA. Limited access to evidence in state courts and inadequate federal resources to pursue EEA violations could help spur Congress to this action. Such a development would allow the actual rights holders to file lawsuits in order to protect proprietary methods or data. A private right of action would be particularly beneficial for data aggregators and financial service providers because it would provide them with a means to assert greater intellectual property rights over consumer data which generally does not qualify for patent, trademark, or copyright protection. In this regard, trade secrets law could soon emerge as the primary legal tool available to data aggregators to protect their rights to their most important and valuable business asset.

For more guidance regarding the above described developments in trade secrets law, please contact **A.J. Zottola** at 202.344.8546 or .