



April 22, 2013

Hon. Victoria Espinel  
Intellectual Property Enforcement Coordinator  
Executive Office of the President  
725 17th Street, NW  
Washington, DC 20503

Submitted via: [www.regulations.gov](http://www.regulations.gov)

**Re: Request for Public Comments on “Trade Secret Theft Strategy  
Legislative Review”  
78 Fed. Reg. 16875 (March 19, 2013)**

Dear Ms. Espinel:

Intellectual Property Owners Association (IPO) appreciates the opportunity to provide comments to the Office of the U.S. Intellectual Property Enforcement Coordinator (IPEC) in response to the *Federal Register* notice published March 19, 2013, requesting public input and participation regarding a legislative review related to enforcement against economic espionage and trade secret theft.

IPO is a trade association representing companies and individuals in all industries and fields of technology who own, or are interested in, intellectual property rights. IPO’s membership includes more than 200 companies and more than 12,000 individuals who are involved in the association either through their companies or as inventor, author, law firm, or attorney members.

The *Federal Register* notice requests recommendations for legislative changes that would enhance enforcement against, or reduce the risk of, misappropriation of trade secrets for the benefit of foreign competitors or foreign governments.

As a general proposition, IPO fully supports efforts to enhance trade secret protections for innovators as well as robust enforcement efforts by the government. There have been a number of enhancements to the Economic Espionage Act of 1996 (“EEA”) in recent months, and IPO has been supportive of those efforts.

Last year, Senator Herb Kohl introduced legislation (S. 3389) to add a civil cause of action to the EEA, which is of particular interest to IPO and its members. For the reasons more fully explained below, IPO supports legislation along the lines of S. 3389. As we understand it, there is some possibility that similar legislation will be re-introduced in the coming months.

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**a) Background**

In order to protect the economic interests of the United States, the EEA was enacted and signed into law by President Clinton on October 11, 1996. 18 U.S.C. §§ 1831-1839 (1996). The EEA is a criminal statute. *See* §§ 1831 (Economic Espionage) and 1832 (Theft of Trade Secrets).

There is no federal civil cause of action of general application for trade secret misappropriation. Thus, absent diversity jurisdiction or a concurrent claim under federal statutes that were not enacted to protect trade secrets (such as, *e.g.*, the Copyright Act or the Computer Fraud and Abuse Act), trade secrets claims must be litigated in state courts under state law. While most states and the District of Columbia have enacted some version of the Uniform Trade Secrets Act (“USTA”), there is variation among the state trade secrets acts as adopted.

**b) Policy Considerations**

The EEA was enacted prior to the widespread commercial use of the Internet and prior to the widespread entry into various international treaties, in order to comply with which U.S. trading partners have committed to enact national protections for trade secrets. To date, the U.S. has not consistently received cooperation from international jurisdictions in protecting trade secrets and does not have its own federal civil statute of general application to reference in encouraging the adoption and enforcement of similar legislation by its treaty partners.

The increased digitization of critical data and increased global trade have made it far easier to misappropriate vast quantities of data and transport it across state and international boundaries than ever before. As a result, there has been a notable increase in trade secrets misappropriation involving actors and witnesses in multiple jurisdictions. By comparison to the federal courts, which can compel nationwide service of process, state courts are not able to provide for prompt nationwide service of process to join parties and to secure testimony and other evidence. Moreover, the fact that data can be copied and transferred far more quickly than in the past often heightens the need for immediate relief to halt misappropriation before the trade secret is destroyed. State courts are not always equipped to respond to applications for urgent assistance. Further, interim equitable relief granted by one state is not necessarily entitled to full faith and credit in another until the judgment is final. Thus, securing injunctive relief against actors in multiple jurisdictions can require the commencement of multiple proceedings, compounding delay and expense.

Not all trade secrets disputes, of course, are national or international in scope. Many “garden variety” departing employee cases focus on fairly local concerns, such as customer lists and business proposals, and nationwide service of process generally is not necessary for many such disputes. Further, many such disputes are related to the attempted enforcement of restrictive covenants, ranging from non-disclosure agreements to customer non-solicitation agreements to covenants not to compete. The states differ

widely in the extent to which they will permit the enforcement of such restraints on post-employment activity. The proposed bill S. 3389 included pleading requirements, discussed below, to attempt to differentiate disputes requiring the procedural benefits afforded by federal courts from more local disputes.

**c) Overview of S. 3389**

In addition to creating a private civil cause of action in federal court, *see* § 1836(a)(1), there were 4 proposed amendments to the existing EEA in Section 1836 entitled “Civil Proceedings”:

- (1) Special Pleading Requirements [§ 1836(a)(2)]
- (2) Civil Ex Parte Seizure Order [§ 1836(a)(3)]
- (3) Civil Remedies [§ 1836(a)(4)(a)]
- (4) Three-Year Statute of Limitations [§ 1836(c)]

In addition, two definitions for “misappropriation” and “improper means” were added to Section 1839 Definitions [§ 1836(b)].

**i) Special Pleading Requirements**

The special pleading requirements were designed to prevent ill-founded or purely local disputes from becoming “federal cases.” Thus, to prevent the filing of claims that cannot ultimately succeed, Section 1836 (a)(2)(A) required that the complaint “describe with specificity the reasonable measures taken to protect the secrecy of the alleged trade secrets...” Section 1836 (a)(2)(B) required that the party asserting the claim “make a sworn representation...that the dispute involves either substantial need for nationwide service of process or misappropriation of trade secrets from the United States to another country.”

**ii) Ex Parte Seizure Orders**

The proposed legislation allowed for the entry of an *ex parte* seizure order if the court finds that the applicant established by *clear and convincing evidence* that such an order was necessary to prevent irreparable harm. § 1836 (3)(A). This standard is a heightened showing and is not simply a “preponderance of the evidence” standard. The seizure order may provide for the seizure of any property used or intended to be used to commit the misappropriation alleged in the civil action and the preservation of evidence. In addition to requiring the complaining party to establish the need for such an order by clear and convincing the evidence, as further protections to the accused party, the proposed legislation provides that the property cannot be retained beyond 72 hours without notice to the affected party and an opportunity to be heard; that any copies of seized property shall be made at the expense of the requesting party; that the seized

property shall be returned to the party from which the property was seized at the end of the 72 hours and any extensions made with notice; and include an appropriate protective order designed to prevent the improper use or disclosure of confidential, private, proprietary or privileged information contained in the seized property. § 1836 (3)(B).

A party injured by a seizure may bring a civil action against the applicant for the order and shall be entitled to recover appropriate relief including, as appropriate, damages, punitive damages and, unless the court finds extenuating circumstances, a reasonable attorneys fee. § 1836 (3)(C).

### **iii) Civil Remedies**

The proposed legislation provided for a variety of remedies for misappropriation similar to those provided under the USTA, including injunctive relief, an order requiring affirmative actions to protect a trade secret, and, where it would be unreasonable to prohibit use of a trade secret, an order requiring payment of a reasonable royalty for any use of the trade secret. § 1836 (a)(4)(A).

The proposed legislation further provided for the possibility of damages for actual loss and an award of damages for unjust enrichment. § 1836 (a)(4)(B). The legislation also provided for an award of exemplary damages, in the event of willful or malicious misappropriation, of up to the amount of actual loss and unjust damages awarded. § 1836 (a)(4)(C). This is less than the two times multiple of actual damages permitted by many states that have adopted the USTA.

Finally, the proposed legislation provided that if a claim of misappropriation was made in bad faith, a motion to terminate an injunction was made or opposed in bad faith, or a trade secret was willfully and maliciously misappropriated, the court could award reasonable attorney's fees to the prevailing party. § 1836 (a)(4)(D).

### **iv) Three Year Statute of Limitations**

The proposed legislation adopted the "discovery" rule and provided that a civil action could not be commenced later than 3 years after the misappropriation was discovered or, by the exercise of reasonable diligence, should have been discovered. A continuing misappropriation constituted a single claim of misappropriation. § 1836(c).

### **v) Definitions**

The proposed legislation expressly provided that "improper means" did not include reverse engineering or independent derivation and that it did include "theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means." §1836 (b)(6). The proposed legislation also defined "misappropriation," essentially adopting the USTA's definition of this term. § 1836(b)(5).

#### d) IPO Analysis

The legislation was drafted to address the issues discussed in the Background and Policy discussions above. S. 3389 placed certain categories of trade secret disputes on an equal footing with other kinds of federal intellectual property disputes, which is needed to assist the U.S. in its efforts to secure similar commitments from its treaty partners. The legislation provided the advantages of federal service of process in disputes involving actors and witnesses in multiple jurisdictions and provided for the speedy entry of orders, including on an *ex parte* basis, to prevent imminent misappropriation and to preserve evidence.

Some critics of S. 3389 argued that unscrupulous trade secret owners may improperly use the legislation to harm competitors, for example, through the “*ex parte* seizure” provision. § 1836(a)(3). As drafted, however, IPO believes that S. 3389 contained adequate protections against improper application of its provisions. For example, the *ex parte* seizure order required a party to demonstrate, by “clear and convincing evidence,” that an order was “necessary to prevent irreparable harm.” § 1836(a)(3)(A). Further, the seizure order was expressly limited to an initial term of only 72 hours (which can only be extended after the affected party has an opportunity to be heard) and must include provisions “to ensure ... seized property is not improperly disclosed or used.” § 1836(a)(3)(B). Finally, any party injured by an *ex parte* seizure order could seek damages against the applicant of the order, including punitive damages and reasonable attorney’s fees. § 1836(a)(3)(C). The legislation also had procedural safeguards to prevent improper application, including the requirement that the party seeking relief describe with specificity the precautions that have been taken to protect the alleged trade secrets and the requirement of a sworn statement attesting to the need for multijurisdictional service of process or that the dispute is international. S. 3389 encompassed many of the remedies provided under the USTA while limiting the cap on exemplary damages. The statute thus afforded an additional avenue to those aggrieved by certain misappropriation but in a manner designed to prevent “garden variety” local claims from flooding the federal courts.

An addition to new legislation that might address some of the concerns raised regarding *ex parte* seizure orders would specify that as to trade secrets that are stored electronically, copying the electronic storage medium (*e.g.*, creating a mirror image of a computer hard drive) may substitute for a physical seizure of the storage medium.

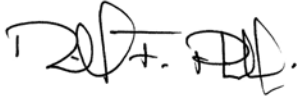
Also of note is the fact that S. 3389 applied a “clear and convincing” standard of proof both on those seeking to seize property on an *ex parte* basis, and on those seeking an order merely directing that certain evidence be preserved. *See* § 1836 (a)(3)(A). Since in federal litigation a duty to preserve evidence is triggered once it becomes apparent that there is a dispute to be litigated, it may be appropriate for the standard to be applied in evaluating a request for a preservation order to be less than a showing by “clear and convincing” evidence. Such a change may be warranted, and could be proposed when (and if) legislation along the lines of S. 3389 is re-introduced and makes its way through Congress. Finally, it may be advisable to consider other amendments to help ensure that

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“garden variety” employee mobility cases remain in state court, such as (for example), setting forth some factors to be considered in the requirement of a sworn statement attesting to the need for multijurisdictional service of process or that the dispute is international.

IPO applauds IPEC’s continuing efforts to include public participation and input in reviewing legislative changes that would enhance enforcement against, or reduce the risk of, misappropriation of trade secrets, and welcomes the opportunity to provide further comments and insight as requested in the future.

Sincerely,

A handwritten signature in black ink, appearing to read "R. F. Phillips". The signature is stylized and cursive.

Richard F. Phillips  
President