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Trade Secrets Bill Clears House, Obama to Sign Into Law

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The House's overwhelming passage of the Defend Trade Secrets Act April 27 promises to start a shift of trade secrets cases to federal courts, attorneys say. The bill, which cleared the House 4102, now moves to President Barack Obama, who has promised to sign it. It passed the Senate April 4. The bill would allow companies to sue for trade secret theft in federal as well as state court. Companies could also ask a judge to order the seizure of an accused trade secret thief's property "in extraordinary circumstances" to prevent those secrets being more broadly disseminated. The only other federal trade secrets law is a criminal statute, the Economic Espionage Act of 1996, and those cases must be brought by the U.S. Justice Department. Eric Ostroff, an administrative partner at Meland Budwick, P.A., predicted cases will move to federal court partly because federal judges, who have sole jurisdiction over patents and most copyright law, are more expert in intellectual property matters than state judges. State courts also tend to be overburdened and slower to move on trade secret cases, he said. That can leave a company in dangerous limbo—with trade secrets hanging in the balance—for months.

"At least a substantial portion, if not a majority, of trade secrets cases now being litigated in state courts will be litigated in federal courts," Ostroff said. Intellectual property attorneys, who do the vast majority of their work in federal courtrooms, will also be attracted to a single national standard for trade secrets cases, said Peter Brody, a partner with Ropes and Gray who focuses on intellectual property. The prospect of stopping a trade secrets crime in its tracks through the seizure provision, which isn't available under state laws, will also "be a magnet for litigation" drawing aggrieved plaintiffs to federal court, Brody said. However, he cautioned that the "extraordinary circumstances" bar for seizure will likely be difficult to meet, a sentiment many IP litigators echoed. "If it turns out that is all but impossible to ever get from a court, it may ultimately have less effect," Brody said. "But we'll see years of

people trying to get to that." The Defend Trade Secrets Act only applies to thefts that occur after the bill becomes law cases brought under the law would also subject to a threeyear statute of limitations. The Uniform Trade Secrets Act, which governs trade secrets laws in 48 states to some extent, also has a three-year statute of limitations, though some states have extended that limit. Although a shift is expected, there's unlikely to be an avalanche of cases suddenly hitting federal courtrooms, attorneys said. Some plaintiffs may be hesitant to give up a long history of precedents under the Uniform Trade Secrets Act (UTSA) for a brand new federal law where precedent has yet to be set, Ostroff said. Some smaller companies, too, may believe they'll get a friendlier hearing before state judges, said John Tanski, a partner with Axinn, Veltrop and Harkrider. Add the fact that many large corporations working across state lines are already taking state trade secrets claims to federal courts with their other IP claims, and the actual shift may not be that pronounced, he said.

"The people who are pushing this legislation are a lot of large companies and companies that are particularly worried about really large, significant trade secrets breaches," Tanski said. "I don't think the typical smaller ' employee who leaves with a customer list' case will get affected that much." Finally, there are benefits to employers under some state interpretations of the UTSA that would be unavailable under the federal law. Notably, it would be easier for them to restrict employees from moving to competitors. Some states, under their interpretation, allow judges to bar certain employees from taking jobs with competitors because of a doctrine known as "inevitable disclosure," which essentially holds that it would be impossible for an employee to perform their new job without revealing some secrets. But under the Defend Trade Secrets Act, employers could not restrict an employee's movement based "merely on the information the person knows." Instead, they would need to believe the employee was going to misappropriate a trade secret before barring them from working for a competitor.

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