MELAND | BUDWICK

New Fla. Trade Secrets Law Seen As Too Easy To Abuse

https://melandbudwick.com/2021/06/11/new-fla-trade-secrets-law-seen-as-too-easy-to-abuse/

Carolina Bolado

Law360 (June 11, 2021, 7:49 PM EDT) — Attorneys fear a new Florida trade secrets law that aims to target China and other foreign agents looking to steal intellectual property casts too wide a net and could catch employees in run-of-the-mill trade secrets disputes.

H.B. 1523, the Combating Corporate Espionage in Florida Act, is billed as a new tool that will help prosecutors fight foreign governments and their agents who steal trade secrets. And while it certainly does that, it also could have unintended consequences that legislators — who passed the bill on unanimous votes in both houses — may have overlooked, according to James Gale of Cozen O'Connor.

"The legislature is not wrong that China is ripping off Americans on a daily basis," Gale said. "But I think they just used a bazooka to kill a fly."

Under the statute, stealing a trade secret remains a third-degree felony, but the law creates a new second-degree felony for trafficking in those trade secrets. If the theft is for the benefit of a foreign government, the offense is ranked one level higher on the offense severity chart.

Gale, who teaches trade secrets law at the University of Miami School of Law, said the law is a "trade secrets statute on steroids" unlike any he has seen around the country. It not only increases the risk of a claim being brought against a former employee who takes materials, either on purpose or inadvertently, but also adds the ex-worker's new employer as a potential target because it affects anyone who obtains the trade secret, even if the information in question is not used.

"This is a key distinction between this statute and many other statutes around the country," Gale said. "It's answering a question that has come up in a number of cases

around the country as to whether mere possession is sufficient to constitute a theft of trade secrets, and this statute answers it to say mere touching of it could subject the person to criminal and civil penalties."

While attorneys said it is unlikely the law will lead to a dramatic increase in state prosecutions of small trade secret theft cases that have typically been handled by civil courts, Jonathan Pollard of Pollard PLLC, who focuses his practice on trade secret and noncompete matters, said that often the mere threat of criminal penalties — and now longer potential prison sentences — is enough to constrain employee mobility and have a new employer get cold feet.

The law gives companies an additional weapon to wield against employees seeking to leave, he said.

"The cases routinely filed are run-of-the-mill employee leaves and takes documents or some spreadsheets with customers," Pollard said. "Everybody and their mother files bogus theft of trade secrets cases and uses it as a way of inhibiting mobility."

Pollard pointed to a section of the new law that updates the language of what constitutes a trade secret to account for electronic documents and information stored in the cloud. But he said additional updates are needed beyond the format in which a document is stored. The framework for what is considered a trade secret was developed before the age of Google, when things like customer information were not easily available online.

"I have grave reservations about further criminalizing theft of trade secrets without clarity of what constitutes a trade secret," Pollard said. "There needs to be equal recognition of the fact that what once constituted a trade secret 30, 40, or 50 years ago no longer is a trade secret."

In addition to enhancing criminal penalties, the law requires courts to order restitution for any violation of the law, including the value of the benefit derived from the offense and expenses that the offender would have incurred reproducing the trade secret at issue.

This change makes it easier for prosecutors to prove restitution losses for victims of trade secret theft, according to Holland & Knight LLP's William Shepherd, a former statewide prosecutor, who said the new law gives prosecutors additional tools to

combat the cases they opt to file.

“I hope what it does is it raises the visibility of the importance of intellectual property crimes and that we realize it has a broader spectrum than just the theft of the secret formula for Coca-Cola,” Shepherd said.

In addition to giving prosecutors additional tools, the law also provides individuals and companies another avenue to seek compensation in state court for stolen trade secrets. The law adds a civil right of action allowing a suit for an injunction or royalty against the offender.

These remedies are already available under the Florida Uniform Trade Secrets Act, but companies can now bring claims under both statutes to cover their bases, according to Eric Ostroff, co-chair of Meland Budwick PA’s trade secrets and intellectual property group. The definitions of a trade secret are different under the two statutes, and a company would have to succeed on just one, he said.

> “I think companies will potentially use it because when you’re talking about a criminal violation that does make the conduct sound more egregious,” Ostroff said.

At a news conference June 7, Gov. Ron DeSantis stood behind a lectern that said “Stop CCP Influence,” referring to the Chinese Communist Party, and hailed the law as a major pushback against China, which he blamed for covering up the COVID-19 pandemic, infiltrating universities and stealing American intellectual property.

“We are taking a stand,” DeSantis said. “With these bills I’m signing into law today, foreign adversaries will not have access to our schools, government and companies like they have in the past.”

But given what makes up the vast majority of trade secrets cases on Florida dockets, the targets of the law are more often going to be American employees moving from one company to another, according to Pollard.

“I understand what the legislature is trying to combat, but there’s a difference between what they’re trying to combat in theory and how it’s going to be

implemented," he said.

–Editing by Jill Coffey and Orlando Lorenzo.

Read more at:
https://www.law360.com/employment/articles/1391849/new-fla-trade-secrets-law-seen-as-too-easy-to-abuse