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EXPERT ANALYSIS

Federal Trade Secret Protection is Long Overdue

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Earlier in 2015, a bipartisan group of House and Senate legislators introduced sorely needed trade secret legislation, the Defending Trade Secrets Act, H.R. 3326, that would open the federal courthouse doors to victims of trade secret theft and provide them with a civil remedy. This is the third time such legislation has been proposed in recent years. Hopefully, the third time is the charm.

Although the legislation enjoys widespread support in the business community, recent media coverage suggests it also faces significant opposition. Notably, the opposition comes primarily from academics, not practitioners or businesses.

As a practitioner who represents many companies with interstate operations, I can attest that federal legislation is long overdue.

For starters, Congress has long seen fit to protect intellectual property. Copyright, trademark and patent protection are all afforded by way of federal legislation. There is nothing unique about trade secrets that warrants or necessitates Congressional ambivalence.

Some suggest that trade secret law is relatively settled, noting that 48 states have enacted a version of the Uniform Trade Secrets Act — but the key word is "version." Despite its title, the UTSA is anything but uniform. Its provisions differ from state to state, and even where its language is similar or identical, different state courts interpret their own statutes differently. The consequences of this variation are meaningful.

Companies whose trade secrets are used in multiple jurisdictions face tremendous uncertainty and a lack of uniform protection. Consider a company with a trade-secret customer list. Imagine the trade secret customers are located in Florida, where courts readily afford trade secret protection to customer lists. But also imagine that the company has California employees who service its Florida clients.

Is there any legitimate reason why California courts should provide less protection to the same trade secret? Of course not. But California courts will say that when an employee leaves the company to go to work for a competitor, the employee can use the trade-secret customer list to announce the new position. In contrast, a Florida court would likely say using the customer list on behalf of a competitor constitutes a misappropriation of trade secrets. Why should a company involved in interstate commerce suffer from inconsistent protection of its trade secrets? This is only one example of the problem.

Another problem is that under current law, misappropriation of trade secrets is not a federal claim. Instead, the claim must be brought in state courts, where dockets are often more crowded and courts are less accustomed to moving cases along quickly. Many state courts across the country lack the resources needed to devote immediate and significant attention to these cases, which are frequently brought on an emergency basis.

In addition, given the increasing prevalence of interstate commerce, persons with relevant evidence are commonly not located in just one state. Consequently, there is a need to gather evidence and testimony from sources and persons located in multiple states. When proceeding in a case filed in state court, the process of gathering out-of-state evidence is much more complicated (and slow) than it is in federal court, where attorneys can issue subpoenas nationwide.

Professors opposing the legislation concede that "effective legal protection for U.S. businesses' legitimate trade secrets is important to American innovation," but they claim the law will unfairly burden small businesses. *See* Letter from Eric Goldman, Professor of Law, Santa Clara Univ. School of Law, to the Honorable Charles E. Grassley, Chairman, Judiciary Comm., U.S. Senate (Nov. 17, 2015).

These non-practicing academics argue that federal lawsuits will be more expensive (have they ever litigated a case in California state court?), and they speculate small businesses may be deterred from fighting a trade secret claim given the expense.

One cannot help but wonder why these critics assume small businesses will always be the ones defending such lawsuits. If innovation is to be encouraged, small businesses — perhaps more than large businesses that can afford expensive patent lawyers — should welcome trade secret protection. If small businesses can afford to create a trade secret, surely they can afford trade secret protection, which merely requires the owner of a secret to take reasonable steps to preserve its secrecy.

Why should a company involved in interstate commerce suffer from inconsistent protection of its trade secrets?

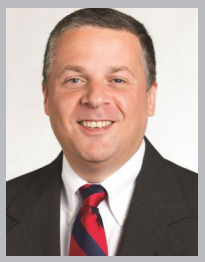
The most forceful opposition to the proposed law focuses on its ex parte seizure provision. This provision would allow courts to compel the preservation and seizure of evidence without allowing defendants an opportunity to be heard. Applications for such orders would require proof that the defendant would destroy the evidence if given notice. But the law also provides consequences for any plaintiff who wrongfully avails itself of this protection.

A person who suffers damage by reason of a wrongful seizure has a cause of action against the applicant, and "shall be entitled" to recover damages for lost profits, cost of materials, loss of good will, and punitive damages if the seizure was sought in bad faith. *See* S. 1890 § 2(b)(2)(G).

Other critics argue that the law could strike a blow to free speech. This argument is nonsense. We are talking about a bill, not a constitutional amendment. And deterring would-be trade secret thieves from misappropriating a trade secret is no more an infringement on First Amendment rights than holding defendants accountable for unlawful defamation.

If the legislation improperly restricted free speech — which it does not — scholars would be arguing its unconstitutionality. Unable to do so, they fall back to claiming it chills free speech.

The bottom line is that the time has come to welcome trade secrets into the family of federal protection afforded other intellectual property. Businesses large and small will benefit from the resulting uniformity in protection, speedier access to justice, and a judiciary better equipped to resolve trade secret disputes.



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