

Impact of Defend Trade Secrets Act on litigating in state court

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Following the enactment of the Defend Trade Secrets Act of 2016, if a claim can be asserted under the act, a plaintiff now has the option of choosing whether to litigate in state or federal court by virtue of federal question subject-matter jurisdiction for trade secret misappropriation. The act allows a plaintiff to assert a federal claim for trade secret misappropriation if the “trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce”.

However, what if the trade secret owner wants to be in state court? If a federal claim is asserted at the outset in state court litigation, the case will be removable to federal court by the defendant based on federal question subject-matter jurisdiction. Thus, the plaintiff would have to weigh the advantages of asserting a federal claim in addition to a state law claim, because the inclusion of a federal claim would allow a defendant the option to remove the case.

This is also true for pending state court actions involving a trade secret claim brought under state law if the misappropriation is ongoing by the defendant. The act states that it shall “apply with respect to any misappropriation of a trade secret... for which any act occurs on or after the date of the enactment of this Act” (Section 2(e)). Thus, if misappropriation is ongoing after the enactment of the Defend Trade Secrets Act, and if it involves products or services used in “interstate or foreign commerce”, a plaintiff may be able to add a federal trade secret claim to an existing lawsuit brought under state trade secret law. While little will change with respect to forum if the state trade secret claim is already pending in federal court based on diversity subject-matter jurisdiction or pendent jurisdiction under 28 USC § 1367, a plaintiff’s amendment of its complaint to add a federal trade secret claim in a state court proceeding could affect the court in which all the trade secret claims (both state and federal) are adjudicated. If a plaintiff were to amend the complaint to add a federal trade secret claim under the Defend Trade Secrets Act, the defendant would have the power to remove the action to federal court based on 28 USC § 1446(b)(3). Section 1446(b)(3) provides in pertinent part:

“Except as provided in subsection (c), if the case stated by the initial pleading is not removable, a notice of removal may be filed within 30 days after receipt by the defendant, through service or otherwise, of a copy of an amended pleading, motion, order or other paper from which it may first be ascertained that the case is one which is or has become removable.”

Thus, because a federal question would exist under 28 USC § 1331 by virtue of the added federal trade secret claim, the case would become removable even in the middle of the litigation and even between non-diverse parties. Accordingly, this gives the defendant some control over which court will adjudicate the dispute.

This is the case because the addition or inclusion of a federal trade secret claim will not pre-empt the state trade secret law claim. The Defend Trade Secrets Act provides that it is not intended to pre-empt state trade secret law: “Nothing in the amendments made by this section shall be construed to modify the rule of construction under section 1838 of title 18, United States Code, or to preempt any other provision of law.” Thus, the plaintiff has the ability to select the forum, similar to trademark actions, and to assert state law trade secret misappropriation only if the trade secret owner desires to litigate in state court.

Therefore, the options available to a defendant in the event of an added federal claim in state court litigation necessitate careful consideration by the plaintiff of whether to add a federal claim to new or existing state court litigation of trade secret law claims asserted under state law. Depending on the court, the removal may:

- affect the pace at which the case progresses;
- give certain rights to a defendant that may have been unavailable in certain state courts; and
- alter the procedural tools utilised in discovery (eg, nationwide service of process and procedures for service of subpoenas and document requests in foreign countries).



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